★ SELECTED STOCKS AT BARGAIN LEVELS ★

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The MAGAZINE of WALL STREET

and BUSINESS ANALYST

NOVEMBER 20, 1948

75 CENTS

ECONOMIC AND BUSINESS SIGNIFICANC OF PRESIDENT TRUMAN'S ELECTION

By E. K. T., Washington Correspondent

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VARIED PROSPECTS FOR CAPITAL GOODS COMPANIES

By WARD GATES

★

REALISTIC SURVEY OF ELECTRIC UTILITIES

By EDWIN A. BARNES

Congratulations, sir! Your bandaged beak is a badge of honor!

It's a symbol of service . . . a sure sign that you, like most of us these days, have been keeping your nose to the grindstone—working your hardest just to keep your family living the way you want them to live.

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You will if you're buying U. S. Savings Bonds *automatically*—on the Payroll Savings Plan where you work, or on the Bond-A-Month Plan at your bank.

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It's just about the easiest, surest, fastest way of building financial security that anyone ever dreamed up. And with U. S. Savings Bonds, you *make money* while you save it. Every $75 Bond you buy today will be worth $100 in just 10 years!

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Start doing it now! Keep on doing it! And in no time flat, you'll find that you're well on your way to a permanent separation of nose and grindstone!

AUTOMATIC SAVING IS SURE SAVING—U.S. SAVINGS BONDS

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THE MAGAZINE OF WALL STREET
and BUSINESS ANALYST

Member of Audit Bureau of Circulations

Vol. 83, No. 4 — November 20, 1948

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Chart Credit (pages 182-183) F. W. Stephens Co.
15 William Street, N.Y.C.

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EUROPEAN REPRESENTATIVES — International News Co., Ltd., Breams Bldg. London, B. C. 4 England.

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ELECTRIC UTILITIES—A GROWTH INDUSTRY

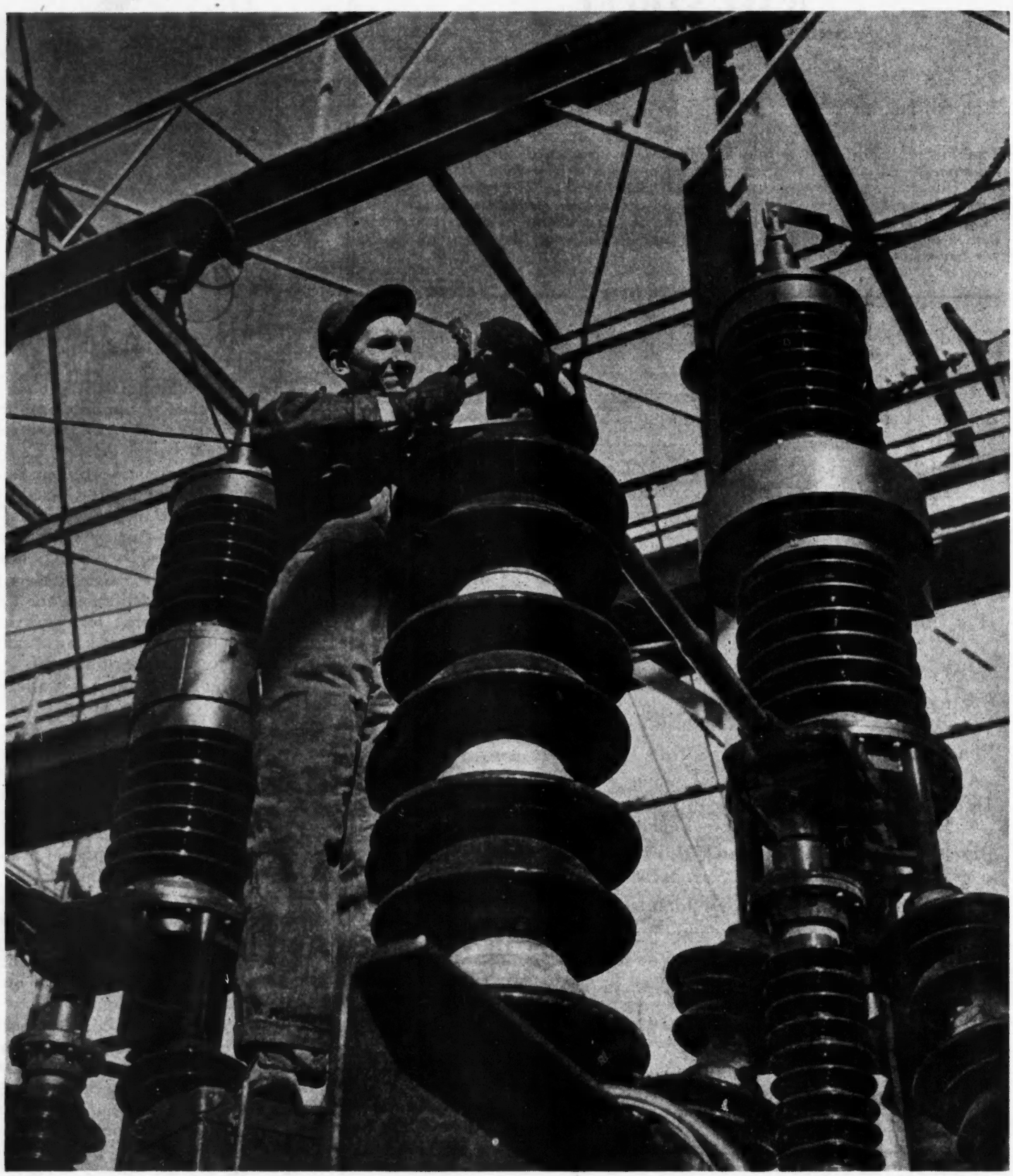
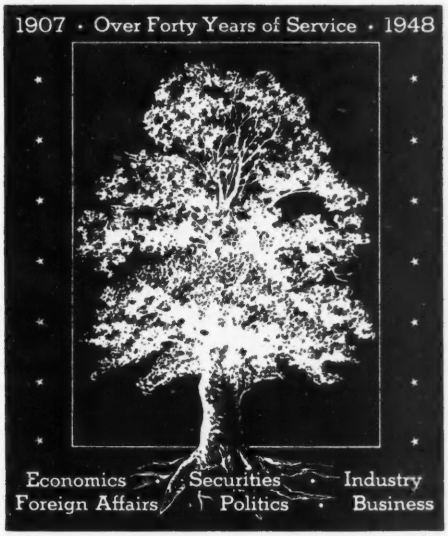


Photo by Gen. Electric

Strong growth factors characterize the electric power industry, thus the rising trend of revenues serves as an important offset to increased operating costs. However, these very growth factors call for major expansion of facilities, requiring large capital expenditures, the financing of which has created distinct problems. You will find a discussion of these problems on page 178, as well as an up-to-date analysis of the industry from an operating and investment standpoint.

THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Editor-Publisher* E. A. Krauss, *Managing Editor* Arthur G. Gaines, *Associate Editor*



The Trend of Events

ANOTHER PHONY PEACE OFFENSIVE . . . Quick denouncement by spokesmen of the western powers of Moscow-inspired rumors of direct Truman-Stalin talks as a dangerous propaganda offensive was well-advised and opportune. So was Senator Vandenberg's warning to Stalin against the delusion that our election killed the bipartisan foreign policy. Obviously, the tenor of Moscow comments on our election results and Stalin's new phony peace offensive can mean only one thing: A move to set a trap for President Truman.

The Kremlin is trying to promote a Truman trip to Moscow by playing on the hopes and the desire of the world for peace. The procedure apparently is to animate that desire and to count on public sentiment to force the President's hand, thereby weakening our position in the cold war. It is a course as transparent as it is unconscionable. Recognizing it for what it is, neither our Government nor the world at large will fall for it. Undoubtedly the "Vinson episode" has raised the Kremlin's hopes for success in its latest maneuver; it will have to be convinced otherwise.

If Stalin really wanted a peace agreement, he could get it quickly and easily on equitable terms, though not on his own terms alone which is evidently what he keeps striving for despite his past failures. He can have it by negotiating through regular channels or at the Paris conference.

It would be a grievous mistake, however, to undertake another "mission to Moscow." Stalin's double-cross in the recent four power negotiations at the Russian capital affords ample proof that he wants a personal Truman conference merely to break bipartisan unity in this country and above all, to break the western united front. Since both of these form the basis of American security and peace, it is unthinkable that anything of the sort would be allowed to happen.

The sooner we make this crystal-clear to the schemers in Moscow, the better it will be. Their contention that President Truman "obligated" himself in pre-election promises to go to Moscow and confer with Stalin is so ridiculous and so devoid of factual proof that it should not be difficult to explode it quickly for what it is: An ill-conceived propaganda maneuver that can find no response in a world so long and so gravely disappointed by Russian intransigeance.

MONETARY RECONSTRUCTION . . . In discussing the problems of monetary reconstruction before the 35th National Foreign Trade Conference at New York City on November 8, Mr. Allan Sproul, President of the Federal Reserve Bank of New York, brought out some points that in our opinion deserve widest public attention.

Mr. Sproul pointed out that the costs of waging a "cold war" and the possibility of a "hot war" are the principal factors disturbing the present general tendency towards stability of prices and production. Hence, he opines, a "tough" monetary policy by the Government is not the answer to current fiscal problems which at this time must be viewed similarly to "war finance."

While declaring there is nothing in the whole fiscal situation to threaten the soundness of the dollar at home or as a world currency, he stated that "we must quit thinking and talking as if the immediate reconversion after the war has been completed, as if we were at peace, to do the things we might do if we were completely at peace."

U. S. monetary policy, he continued, "is becoming a problem similar to the problems of war finance, in which it is essential that the Government's credit re-

Business, Financial *and* Investment Counselors : : 1907—*"Over Forty Years of Service"*—1948

main undisturbed; in which continued taxes and increased tapping of savings will be required and, should the situation get worse, in which the question of controls would again have to be faced, controls which this time might need to include some control of capital expenditures or capital issues."

It is an unfortunate fact that Mr. Sproul's observations are only too true; no unbiased observer can deny their compelling logic. As long as some $15 to $20 billion annually must be expended for cold war and world reconstruction, we cannot pretend to have a peace economy and, by the same token, insist on fiscal and monetary policies suited to a normal peace economy. Living as we do in a semi-war economy, full reconversion to peace has not yet been achieved. No matter how far removed we may be from actual war, we are not yet blessed with peace, hence our economy cannot and won't function as if we were at peace.

This is important to remember as we try to re-assess the prospects of further inflationary pressures arising from rearmament, ECA and possible Lend-Lease, and our attiude towards measures to combat these pressures. Mr. Sproul may be correct when he asserts that a tougher monetary policy at this time is not the answer.

COMFORT TO MOSCOW . . . Coming at a time when special efforts must be made to ship supplies to Europe to prepare that continent for the winter and also to offset the damage caused by the communist strikes in France, the dock workers' strike on the Eastern seaboard is particularly ill-advised and ill-timed. It can do only one thing. Apart from posing a serious threat to our economy and American foreign policy, it will cause great jubilation in Moscow and in communist circles everywhere, whether the strike is communist-inspired or not.

The causes of the stoppages are obscure and appear largely irrational. A contract had been offered to the dock workers which their leaders at first proclaimed a satisfactory agreement and which the operators contend gave the workers "95% of everything they asked for." There was no reason whatever to decline it, a fact that was tacitly admitted by the union's president.

Quite likely, the unexpected dissidence was stirred up by inter-union rivalry, an internal fight for power with the rank-and-file members as unhappy pawns. Certainly the rank-and-file cannot hope to gain materially more than the new contract offers, and meanwhile they will be losing their wages.

Together with the Pacific Coast tie-up which began early in September, we now face the grim prospect —unless an early settlement is achieved—that our entire foreign commerce may be interrupted. Already there exist embargoes at leading Eastern ports. If the worst happens, it will do incalculable damage to our trade and to other nations which depend on our supplies.

Whatever the final outcome, this new experience with irresponsible exercise of union power is highly disturbing. Dockworkers play an important role in our economy and, under present conditions, in our foreign policy and defense. If their sense of responsibility is so dimmed that without clear cause they refuse to work even at the risk of jeopardizing our national interests, the situation is indeed serious and something ought to be done about it. It certainly calls for concerted and energetic measures to bring the strikes to a quick end.

CLOSER TO POWER . . . Amid the repercussions of the surprise outcome of our own election, another one in a different part of the world has largely escaped the public attention it deserves. We refer to the latest de Gaulle victory in France which doutbless has moved him closer to power in his strike-ridden country.

The outcome of the elections for France's second chamber, the Council of the Republic, swept the de Gaullists into a leading position and at the same time was a severe blow to the Communists who lost heavily. Taken with the municipal elections of last spring, this clearly shows up the de Gaullist trend. By picking up council votes from other Rightist parties, and even from his communist enemies, de Gaulle may soon be able to unseat the Centrist coalition government and force a general election.

Ten Centrist cabinets have held office in less than two years and the present shaky Queuille coalition must now reorganize after losing two cabinet members. Unless the coalition, which already has been reshuffled in every conceivable form, can begin to show better results quickly, a de Gaullist regime appears probable.

The immediate effect of the election will be fresh difficulties for the coalition government, but perhaps also to stir it to a renewed sense of unity and accomplishment. But of probably greater significance will be the support given by the election results to the thesis that the Assembly as now constituted does not mirror French public opinion and that elections should be held forthwith.

Defeat of the long drawn-out coal strike may strengthen the Queuille government and the outcome of the American elections may have a somewhat similar effect. Yet de Gaulle's showing was such that it cannot in the long run be ignored. Frenchmen increasingly will be impatient for a direct consultation of the popular will, certainly they will insist that the atmosphere be cleared.

The new trend after all is but a natural result of the coalition's failure to cope with communist revolutionary strikes and to control inflationary chaos, all of which is severely impeding Marshall Plan gains and the economic recovery of Europe. In the circumstances, the coalition ought not to prolong the uncertainty which now overhangs its mandate. In the interest of French stability, it should not deny to the de Gaullist movement the legitimate expression which general elections would give it.

For the time being, the weakened coalition Government has been sustained as ruling bodies of the Socialist party and the Popular Republican Movement decided to resist both communism and de Gaullism. That is, they decided to continue their support of Queuille's cabinet on the condition that it pursue a firm policy that will suppress inflationary prices and reduce government expenditures. Any such decision however cannot obviate the 40% gain scored by de Gaulle in the Council. More important, the complete failure in the past to halt inflation and institute budget economies augurs poorly for any prospect of success at this late time.

As I See It!

By CHARLES BENEDICT

A NEW TRUMAN?

Since we are going to have at least four more years of Mr. Truman, we might as well reappraise the man in the face of his great victory at the polls which showed that he was possessed of greater character and qualities than we had suspected.

For one thing, we have learned that he has a great fighting spirit which remained undaunted, even when fighting for what seemed to be a lost cause. And, he has demonstrated political acumen of a very high order in the conduct of the Democratic campaign which he fought almost single-handed under great handicaps — deserted and alone. I do not believe any top executive in our time has been subjected to such heartbreaking humiliation and disloyalty.

Under such circumstances, it seems well to review the work of this man from the time he was thrust into the presidency by the death of Franklin Delano Roosevelt. A simple man — mild of manner and lacking the personality and oratorical powers of his predecessor, it was clear that Mr. Truman did not possess the allure necessary to stimulate the imagination of the people.

Besides he did not assert himself, being content to continue the policies of Mr. Roosevelt, even retaining many of his advisers, to whom he attributed a greater knowledge and understanding than they actually possessed, for Mr. Roosevelt had pretty much made his own decisions. As a result, rightly or wrongly, Mr. Truman was blamed for all the errors of judgment that followed.

When a decline of the Democratic party had clearly set in, Mr. Truman evidently decided that only his nomination could prevent a clean sweep for the Republicans. The party was disunited and he seemingly did not believe that any suitable Democrat was available — for if there had been one during the last sixteen years, Franklin Delano Roosevelt would not have been the perennial candidate.

"THE BABY-SITTER"

Halladay in the Providence Sunday Journal

Mr. Truman showed the first sign of courageous leadership when he faced the revolt of the southern Democrats on the Civil Rights issue and stood his ground at a time when he had reason to fear a deflection of millions of votes to Wallace by left-wing Democrats. He showed political acumen, too, in deciding to attack the work of the 80th Congress which no other Democratic candidate would have undertaken. And he chose basic issues for his fight — the real estate lobby, housing and high prices — which were the three most important matters of interest affecting the great mass of the population.

The Republican party, too smug and sure of itself, did not meet squarely either the problems of labor or the farmer. They gauged the Palestinian situation badly also. The UN decision to impose sanctions on the Israeli government while it bypassed complaints against the big powers, was extremely unpopular in this country where the great masses of people are always for the underdog. And Mr. Dewey got the blame because it was considered that he had usurped the powers of the President in Paris and that Mr. Dulles was his agent in lining up with the British against the embattled little country. Mr. Truman's last minute decision to have action against Israel postponed until after the election, undoubtedly won him the Jewish vote which up to then had been in Gov. Dewey's pocket.

In fact, in dealing with all the important issues of the campaign, Mr. Truman out-manoeuvred his opponents in such a way as to administer a decisive defeat.

And now, as a result of his experience and success, it seems likely that we can expect a new Truman — confident in his own judgment, sure of himself now that he will have Congress with him. His future course will be interesting to watch.

We have not long to (*Please turn to page* 208)

Selected Stocks at Bargain Levels

The chances are that the worst of the pressure resulting from the election surprise is now over. There has been no change in the generally favorable business outlook. Many stocks are now at relatively attractive prices for longer-term investment objectives and offer excellent yields. On a discretionary basis, as subsequently outlined, we would suggest a partial extension of commitments.

By A. T. MILLER

The stock market has reacted with some violence over the last fortnight, of course, in response to the election of Mr. Truman for a four-year term in his own right, and to the capture of both branches of Congress by the Democrats. The decline has been fairly broad—so far a maximum of about 17 points in the Dow-Jones industrial average from the pre-election recovery high — for two reasons: (1) the election's outcome was a complete surprise to the market, the wrong guessing having been not far from universal, and it therefore imparted a real psychological shock; and (2) the surprise caught the market at a relatively advanced level since, partly in anticipation of a Republican victory at the polls, the industrial average in the preceding month or so had risen about 14 points from the war-scare reaction low in September to a pre-election high of 190.19.

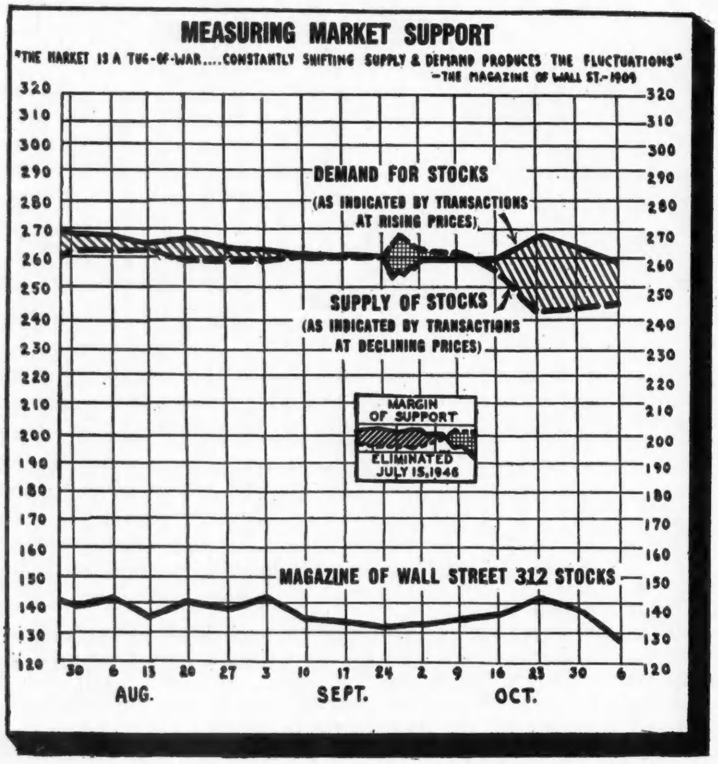
With the exception of last June, when a three-month upswing—which many mistakenly interpreted as a bull market—took the average up to 193.16, the pre-election high was the best level reached since the 1946 market break. These two "intermediate" highs were in the close vicinity of the 1937 bull-market top, and within roughly 10% of the 1946 bull-market high. In view of this technical background, there could quite possibly have been a reaction, although a much less excited one, even had the Republicans won the election—which is why, in our analysis written two weeks ago we recommended postponement of any general expansion of stockholdings, although we mistakenly regarded a Republican victory as probable.

A Great Deal Has Been Discounted

The post-election decline to date has wiped out all of the September-October rise, and a little more; taking the industrial average down to a closing low in the forecast of last week (November 10) of 173.48. For reference, the previous 1948 low, made last March was a fraction above 165, and the lows of both 1947 and 1946 were a shade above 163. Thus so far as the evidence yet goes, we are still in the same old trading-range market; and the case for a real bear trend remains as unproven, if not as unfounded, as that for a major rise. The rail and utility averages also still stand well within the limits of their previous broad trading ranges.

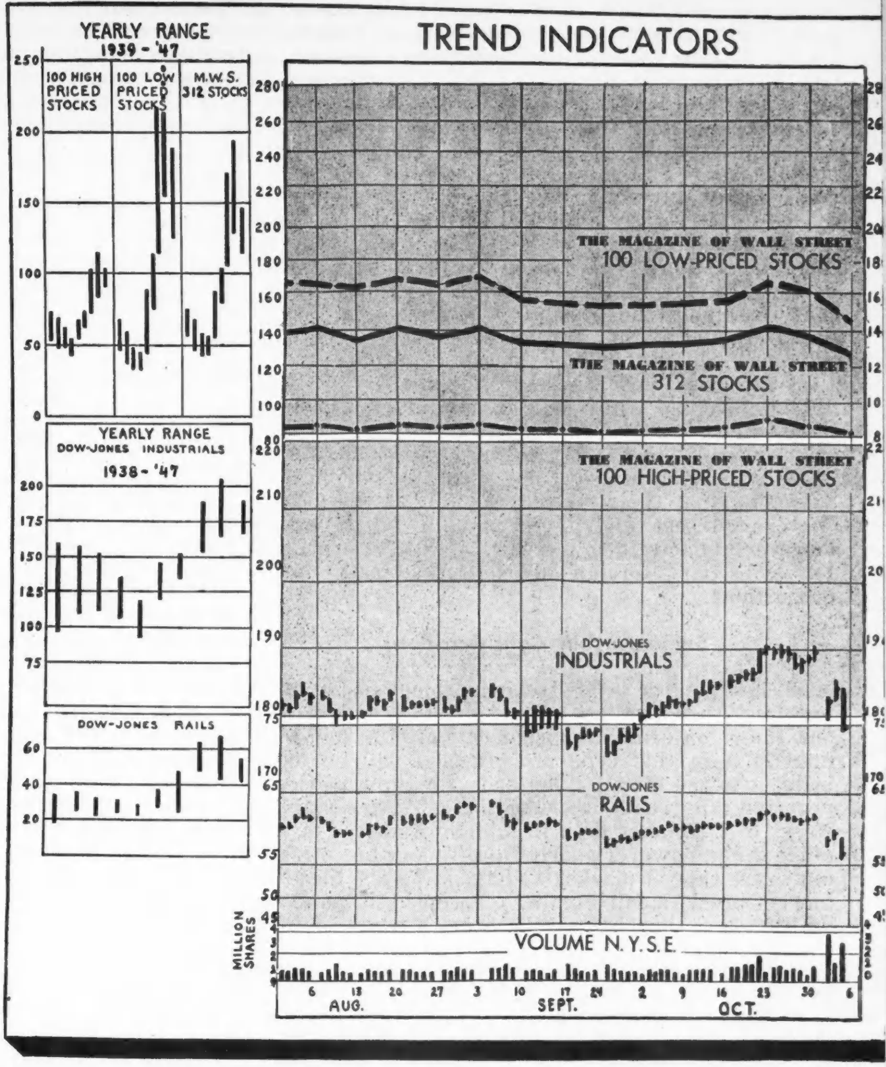
The damage done to the market thus far resulted from three waves of concentrated selling, each confined to single sessions, and each followed by a brief and minor rally. The performance last week had in it some suggestion that the worst pressure may have been seen, at least for a while. Following the third sharp sell-off on Tuesday, November 9, there came, for the first time since the downswing started, two consecutive trading sessions of relative quiet, with insignificant fluctuation and prices a little above their lowest. This somewhat better performance, more negative than positive, has continued into a third trading session, up to our press closing time.

Although there can be no certainty about it, it is conceivable to us that the market might be able to make a stand



at the lows already seen. We do not see a convincing basis for a bear market in the economic picture, in the new uncertainties about some Government policies which have been injected by the election, or in the probable decisions of the Truman Administration, although some of the latter—especially on taxes—may not be indicated for some weeks. If this general view is correct, the market can be considered to be in the bottom one-third area of a trading range of 30 points or so in the industrial average which is likely to be maintained for the foreseeable future — and therefore at a level more appropriate for buying, at least on a partial, scale-down, selective basis, than for selling.

Probably more than anything else, the market has been discounting the possibility of higher taxes and uncertainty as to what form they may take. There is a limit as to how far investors and professional operators will press selling on a consideration as vague and tentative as this. It is unlikely that reliable information on the President's spending proposals and his tax ideas can be had before delivery of the January messages to the new Congress. Even after that, if higher taxes are asked, there will be additional weeks, perhaps months, before it is indicated just how Congress will respond to detailed recommendations. When this and other "government uncertainties" are clarified the market might be higher than it is now or somewhat lower, depending on whether present doubts and apprehensions prove to have been exaggerated or not.



Further Tests Likely

Meanwhile, with the industrial average not far from the 173 level, a very substantial allowance has been made for the unknown, suspected or feared elements in the Truman program. Rather strong support has been indicated around this level through the two-year history of the well-defined trading range, and even stronger support at only moderately lower levels: specifically around 167-168 and, finally, the 163-165 area. In short, with the first emotional shock pretty well over, the market has reached a point at which it would be logical to expect the selling to be less aggressive, and to expect that investors will show a greater inclination to shop around for bargains, especially in any periods of further weakness.

At best, however, there will almost certainly be additional downside tests, either during the remaining weeks of this year or within the first quarter of next year or both. There can be fast technical rallies, of brief duration, at any time. But an adequate base — technical and psychological — for a fairly broad upswing (such as those of May-July, 1947, or March-June and September-October of this year) does not appear to be present and may take some time to build. As a result of the decline, there will be more selling for tax-adjustment purposes than had previously been anticipated, and such operations usually continue into December. Because of the new uncertainties, tax-selling is less likely to involve immediate switch-buying than was the case at this season a year ago.

Another Basis for Some Pressure

Although tax fears center mainly on the corporate levy, there is also some uncertainty about personal income taxes in the upper brackets. This might induce some profit-taking during the rest of the year to make sure that tax liability does not exceed that

under the present law. In theory, such selling should not amount to much; and perhaps it will not. Excepting on the short side of the market, few people can now have much in the way of paper profits which are other than long-term (six months or more) for tax purposes; and which therefore are subject to a maximum capital gains tax of 25%. There has been no suggestion that the capital gains tax will be increased, but investors will figure that on profits cashed in 1948 it gives them at least as good a break as can be expected for at least a very long time to come, since there is no reason to think the tax will be lowered during the Democratic regime. Under that reasoning, the possibility of an increase next year, however slight, will not be entirely ruled out. So some selling to clinch long-term profits under 1948 tax rates must, therefore, be allowed for.

There are cases in middle-income brackets where liability on long-term profits at straight income-tax rates is less than the 25% capital gains rate. Some of these investors may also elect to sell on the reasoning that their present tax rate is the lowest they can expect, and might possibly be increased, however unlikely it now seems, if Federal spending for arms and foreign aid assumes really large proportions.

Some Further Considerations

All in all, there is limited inducement to try even for quick-turn trading profits at the moment. For one thing, on seasonal considerations, the minority interested in this type of operation will be more inclined to try for a buying spot, for the traditional year-end rally, some time within the first two to three weeks of December than in mid-November. For another thing, however poorly Dow Theory has worked out in the type of market we have had since the 1946 market break, a fair number of people still go along with it; and they have to be bearish now, for with the September lows broken in this decline the zig-zag downward pattern of both the industrial and rail averages has "confirmed" a bear market, starting from the high of last summer. (Our average reader will not be too much impressed, remembering that in the upper reaches of this year's March-June rise a bull market was "confirmed"!) For a third thing, various individual members of Congress have been sounding off with their own unsettling predictions of what will be done about taxes. They probably do not know much more about it than you or we do; but it does give the market some pause, and doubtless there will be more of such statements and predictions.

To many, of course, the election has been a great disappointment — probably to the great majority of the investor class. But their sensible second thought will be, if it is not already so, that after all the world has not come to an end. The New Deal has long since ceased to be new. We have been living with it for 16 years; and Gov. Dewey promised only to administer it better, and to carry it further in some moderate respects — not repeal it. As to detailed policies, especially on spending and inflation-control, we would also have been confronted with some uncertainties right now had he won. Indeed, it was "Dewey uncertainty," rather than "Truman uncertainty," which maintained the pressure on the Government bond market, the level of which is of vital basic importance to the stock market, right up to the election, as institutions sold relentlessly to the Federal Reserve at the pegged price, on doubt that the peg would be maintained. Now that official support is assured at least for an extended medium-term period, it probably will not be needed. Selling has dried up, and buyers other than the Federal Reserve have reappeared.

You Can Live With It

We have lived with the New Deal 16 years, and not too badly. We are now going to get some social-welfare measures, to which there is no great dissent even among Republicans, excepting the "Old Guard," such as higher minimum wages, liberalized Social Security, some subsidized housing, etc. With the country prosperous and the majority of people reasonably well satisfied with conditions, rather than having a real gripe as in depressions, there is no reason to think that the Truman version of the New Deal will assume its initial crusading zeal, its strong leaning to experimentation or its marked bias against private business.

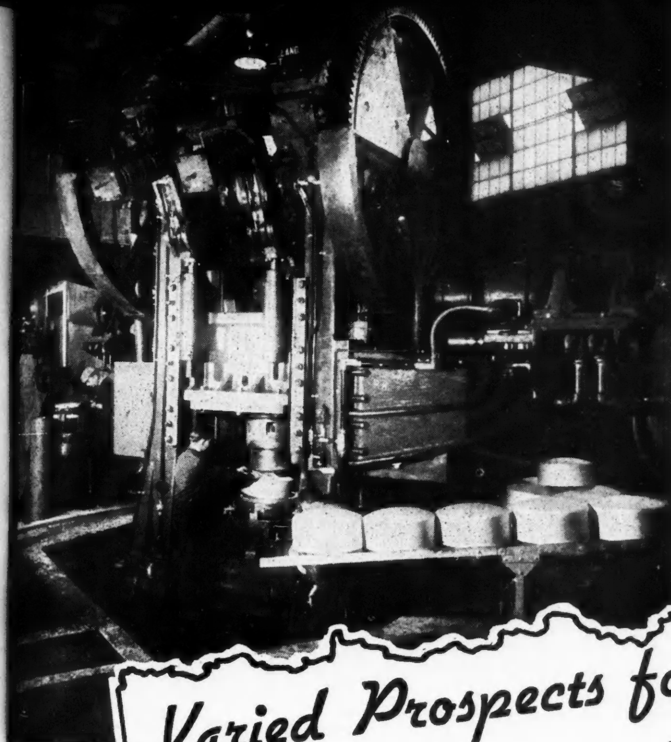
In these 16 years we have had all sorts of business conditions: poor, fair-to-middling, excellent. We have had two major bull markets and one minor one; two major bear markets. We have seen the Dow industrial average as low as 93, as high as 212. At times political considerations have played some part; but in the main investment hopes and fears have been geared to economic considerations and world conditions pretty much as was always so. Probably it will always be that way, for the country certainly is not going Communist, and the results from Socialist regimes, as in Britain, have yet to give our people any reason for favoring imitation of them.

The major buying and selling opportunities in the stock market — and the lesser "intermediate" ones— have been more numerous in these 16 years than in any previous comparable period of time on record. That was mostly because of reasons beyond the control of the Government. But if investors and speculators have not profited adequately on these price swings, they can place the blame where they will. It certainly does not attach to the President nor his predecessor. There has been a succession of opportunities, and there will be plenty more in the future.

The Business Outlook

Before the election we did not see any basis for more than a mild recession, if any, in business during 1949. Nothing has happened to change that view. Perhaps the chief question is whether corporations will slow down on expansion outlays more than they would otherwise have done. That might be so in manufacturing industries in some instances; but mainly confined to border-line situations where further expansion was of debatable economic merit anyway. Total outlays for new plant and equipment reached their peak in the final quarter of 1947. The prospect had been that there would be a moderate further decline in any event, due to completion of so many manufacturing programs; but that capital expenditures would hold at a generally favorable level because of the huge and urgent programs in the utility, telephone, natural gas and oil industries. That is still the prospect.

The prospect had been that a moderate decline in private capital outlays would be offset by increased public spending (local, state and Federal). That is still the prospect. There (*Please turn to page* 208)



Varied Prospects for.... Capital Goods Companies

By WARD GATES

It was the capital goods shares that put steam into the stockmarket's pre-election rally, and more likely than not, they will spark the recovery that sooner or later will follow the post-election rout of stock prices. There is good reason for this assumption.

The extraordinary levels which capital goods activity has reached, and the promising prospects ahead with their overall importance in the broad economic equation, have only lately been realized more fully. Last year the total of business outlays for equipment, of construction activity and consumer expenditures for durable goods came to some $50.5 billion against a mere $15.3 billion in 1939, and recent figures point to an annual rate this year of better than $57 billion. This is a sizeable portion of the nation's production and what's more, the ratio is not likely to decline in the foreseeable future. It may well rise further.

It will be remembered that over the past two years, predictions of an end of the durable goods boom have been heard at regular intervals. But capital goods programs have actually exceeded expectations, unfilled demand in many categories is about as large as ever, substantial armament orders have been placed and more loom ahead, greater exports of capital goods are wanted. In short, the situation as a whole remains one of great strength, so much so that it has once more become one of the stoutest pillars of the economy as the soft goods boom has been easing. While high capital goods activity lasts, a business recession can hardly occur, for the employment and purchasing power provided by the capital goods industries will support the markets for goods for which demand has become less vigorous.

Mainstay of high capital goods activity have been the record breaking outlays of business for plant and equipment. Since the war's end, these have totalled over $50 billion and currently are still running at an annual rate of some $18 billion, the bulk of it for machinery and equipment. With many industrial expansion programs completed, a drop from this peak level must be expected next year though overall business spending should remain substantial, remaining a powerful sustaining factor. Moreover there is now every indication that any decline will be offset by armament orders and ECA exports.

Where Strong Expansion Continues

In certain industries such as steel, oil, chemicals, natural gas, electric utilities and construction, expansion activity will continue apace. Elsewhere any downtrend in capital outlays should be moderated by growing awareness among businessmen of the need to expand or modernize capacity that may be required because of population growth and technological developments, and there is evidence of a considerable volume of plans based on such considerations.

The prospect of stiffening competion alone will

doubtless act as a continuous spur to capital improvements and additions. Opportunities for cutting costs through labor-saving machinery are so numerous, owing to the sharp rise in wage rates, that a long period of high activity can be anticipated for manufacturers of such items. Moreover, the heavy use of manufacturing equipment during and after the war assures a substantial replacement demand in coming years. Trends in this direction have been reflected by the latest upturn in orders for machine tools following a temporary summer dip in buying, and order backlogs remain quite substantial.

Heavy Capital Investments Assured

Altogether, continuing heavy capital investments appear well assured, brightening the potentials for capital goods industries. This is important, for long run prosperity hinges upon the ability of the economy to generate an appropriate rate of capital outlays. On top of this, re-armament, possible lend-lease and mounting ECA emphasis on capital goods add to existing potentials.

Of total defense appropriations made so far, it is estimated that some $5 billion will be earmarked for heavy procurement—mainly airplanes, ships and construction. Average monthly spending for heavy military items currently runs at about $250 million, and over the next fourteen months, the rate should build up to about $400 million. This apart from any possible future rise in appropriations, or revival of a lend-lease program for the western nations.

As to ECA spending, there has been a marked shift from buying of food and consumption goods to machinery and recovery goods. ECA now places a high priority on re-equipping western Europe's worn-out industrial plant. ECA nations, according to latest official reports, would like to place orders for some $800 million worth of machinery and machine tools by mid-1949. This would include some $180 million worth of oil refinery equipment, $19 million worth of coal mining equipment, $75 million worth of steel mill equipment, $80 million worth of farm machinery, a sizeable amount of textile machinery and about twice as much electrical machinery as these countries purchased in 1947. Additionally a large quantity of steel, mostly in form of finished steel products, that may come to about $175 million.

The stepping up of capital goods demand is making itself felt in various ways. Behind the overall economic picture, a slow but significant shift from a soft goods economy to a hard goods economy has been going on. Some 300,000 workers, it is estimated, are in the process of moving from relatively slack soft goods industries into aircraft and munitions plants. Contractors are pulling harder and harder for the metal supply, with steel remaining the primary scarcity item.

Output of steel has been, and still is, pushed enormously. In October it reached the highest level for any month in the industry's history, exceeding even the war-time peak established in 1944. Steel making furnaces are operating at 99.9% of capacity. Recent production gains reflected, in addition to improvement of the raw materials supply, the coming into production of new facilities, construction of which was begun one to three years ago. With additional projects underway, there is every prospect that the steel shortage henceforth may

Statistical Data on Selected Capital Goods Companies*

	Net Per Share 1946	Net Per Share 1947	Net Per Share 9 mos. 1948	Dividends 1947	Dividends 1948	Div. Yield°	Recent Price	Price-Earnings Ratio†	Price Range 1948
Allis-Chalmers	def. $.06	$1.69	$3.58	$1.60	$2.00 E	6.5%	$31	18.3	37⅛-25
American Brake Shoe	3.51	4.11	2.78	2.40	2.40 E	6.9	35	8.5	43⅝-34½
American Car & Foundry	5.26	3.47	......	3.00	3.00	9.1	33	9.5	49⅛-32¾
Bliss, E. W.	1.70	3.11	2.91	1.00	1.25 E	10.4	11	3.6	14¾-11¼
Bucyrus-Erie	2.08	3.81	1.63 b	1.50	1.50 E	10.0	15	3.9	24⅜-15½
Byron Jackson	2.38	3.56	3.82	1.40	2.00	7.4	27	7.6	35½-23⅝
Case, J. I.	1.07	5.50	......	1.60	2.00	5.1	39	7.1	52½-35¾
Caterpillar Tractor	3.25	5.29	3.41	3.00	3.00	5.7	53	10.0	68½-50¾
Celotex	4.17	6.59	5.33	1.12	2.00 E	8.0	25	3.8	34⅜-22¾
Cooper-Bessemer	def. .54	7.55	7.39	.50	1.50	6.0	25	3.3	33 -19½
Deere	2.46	3.90	4.53	2.00	2.75	7.8	35	9.0	46⅛-33
Dresser Industries	.74	3.85	4.98	nil	1.50 E	7.1	21	5.5	31⅛-20
Food Machinery & Chem. (k)	3.21	4.48	2.85 b	1.00	1.50 E	4.8	31	6.9	47¾-31½
Ingersoll-Rand	4.64	8.04	4.54 b	4.50	5.00	7.7	65	8.1	76¼-65
International Harvester	1.30	3.36	2.01 b	1.21	1.70	6.1	28	8.3	34¼-26¾
Joy Mfg.	3.29	8.52	5.50	2.10	3.00 E	9.1	33	3.9	43¼-30⅝
Link Belt	5.50	8.68	8.81	3.00	5.50	8.9	62	7.2	70¼-55¼
Lone Star Cement	5.58	6.68	5.51	4.25	4.25 E	6.7	63	9.4	68⅞-57½
National Supply	1.48	5.47	4.56	.50	1.00 E	5.6	18	3.3	25¼-17¾
Otis Elevator	2.36	3.41	4.02	1.35	2.25 E	7.7	29	8.5	37½-27
Pullman	.64	2.38	1.45 b	3.00	2.00	5.6	36	15.0	53 -36⅛
Ruberoid	6.73	10.88	10.11	2.75	4.00 E	6.6	61	5.6	72 -54½
U. S. Gypsum	9.90	10.00	11.42	4.00	6.00 E	6.0	100	10.0	113¾-92½
U. S. Pipe & Foundry	1.20	6.02	3.69 b	1.60	2.80 E	6.4	44	7.3	53¼-39½
Worthington Pump & M.	3.53	5.86	3.68	.67 c	1.25	7.8	16	2.7	25⅝-14⅞

*—Figures adjusted for stock splits and stock dividends.
E—Estimated.
b—6 mos.
c—Plus stock.
k—Food machinery only.
°—Based on 1948 dividends.
†—Based on 1947 earnings.

not be as bad as earlier feared, though this depends entirely on actual future defense requirements and the workings of allocations.

Despite record output, there is no early prospect of catching up with demand; the steel industry should be fully busy for a considerable time to come. All of which points to continued high earnings for steel companies, bolstered by wider profit margins occasioned by the shift to f.o.b. pricing which should more than compensate for higher costs.

Result of Steel Shortage

As it is, inadequate steel supply keeps various industries from adjusting production to demand. Automobile manufacturers could turn out more cars if they had larger steel allotments. Oil companies could drill more wells if oil field supply firms could get three to four times more steel than in prewar, instead of only twice as much as at present. Farmers would obtain more farm machinery, the railroads more freight cars, and many other industries could step up output if more steel were available. Little wonder that steel shares have been market leaders, that steel company earnings have been hitting new highs.

In the industrial machinery field, sales have been humming but the picture is not uniform. The machine tool industry, down to about 50% of capacity, badly needs the stimulus expected from defense and ECA buying. Existence of large numbers of surplus machines and reduced foreign business (pending ECA) have adversely affected sales. Exports are down to less than 10% of shipments compared to a normal ratio of 20%, and total shipments are far below what they were. Through ECA, better demand will materialize as machine tools are the big need of Europe. But delays in obtaining official approval of orders may hold off quantity business for some months. Re-armament business should become increasingly important, and general industry demand should likewise improve as the need for cost-cutting becomes more urgent. Reflecting the latter, makers of special purpose machinery have been doing relatively better than manufacturers of standard machine tools.

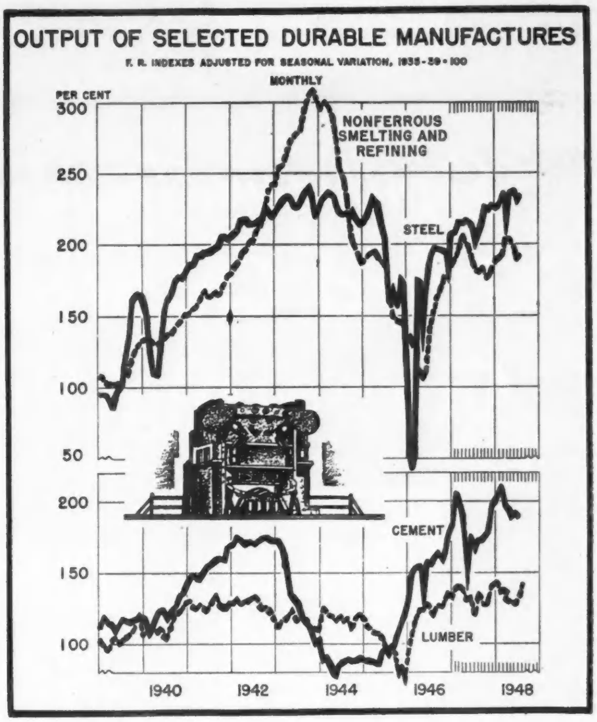
Manufacturers of steel mill machinery are doing a peak business with orders coming in faster than they can be filled. This reflects the big expansion programs of the steel industry but also substantial foreign orders. France, for instance, has been an active buyer; so were other foreign countries. Chief beneficiaries of this boom are such firms as United Engineering & Foundry Co., Mesta Machine Co. and Aetna-Standard Engineering Co. All have very substantial order backlogs and promising earnings prospects.

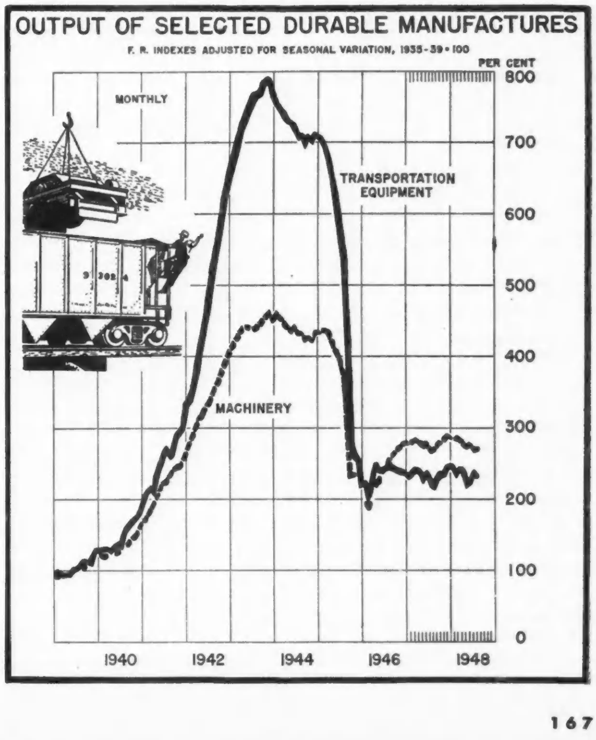
Bright Outlook for Various Machinery Fields

The outlook is equally bright for the makers of mining machinery, oil field equipment and road building machinery, both domestically and for export. In all these categories, foreign demand is substantial and on the increase, and domestic needs are no less pressing.

The recent development of a sensational new continuous coal mining machine, by Joy Manufacturing Co., should spur the tempo of mechanization of the mining process, now suffering from high wages and costs. Because mechanization of mining, of every type, is relatively new, growth prospects in this field are favorable and with mining industry replacements and expansion needs substantial, well sustained business and good earnings are assured.

Providing a vital assist to the oil industry, oil field equipment firms are now turning out unprecedented quantities of new drilling and production gear. In what promises to be an all-time banner production year, this (*Please turn to page* 203)





Significant Trends in Third Quarter Corporate Reports

By J. C. CLIFFORD

Interim reports covering the third quarter show clearly that the majority of industrial concerns are still benefitting from boomtime conditions, with new records for volume and net earnings. A substantial minority of enterprises, though, have made less encouraging progress for a wide variety of reasons. On balance, while the over-all results are excellent and the experience of many companies leaves little to be desired, the broad picture invites study of both its bright and less favorable aspects.

In general, the combined figures reflect the steadily rising curve of consumer purchasing power, the influence of higher prices and advantages accruing from gradually completed expansion and modernization programs. The latter factor undoubtedly has raised industrial capacity to an all-time high, tending to broaden both the supply and character of goods sought by consumers. Such manufacturers as still enjoy sizable backlogs, at the same time receiving ample supplies of raw materials and operating relatively free from labor troubles, have found the going all to their liking. At the distributors level, better balanced inventories and a wider range of offerings have helped to lift volume although profit margins have developed varying trends.

Accounting for less numerous downtrends in reported third quarter earnings are the elements of declining sales, over-rapid expansion, increased competition, inadequate cost controls, consumer resistance to high prices and failure to recognize changes in consumer preferences. For a long time past, the factor of increasingly high break-even points has stirred up widespread concern. Quite a number of businesses experiencing a contraction of sales for any or all of the reasons we have cited, have found to their regret that even a slight dip in volume has reduced operating margins much faster in proportion. The impact has been especially notable where inflexible overhead expenses proved a serious problem. In cases where net earnings have declined impressively, a sales drop rather than rising costs has often been to blame.

Among those industries seemingly riding the wave under current conditions, to judge from recent interim reports, are the producers and refiners of petroleum products, iron and steel, textiles, building materials, chemicals, automotive items and electrical or radio equipment. Producers of food products, pharmaceuticals, luxury goods, and certain paper products appear to have had trouble in maintaining profits margins as satisfactory as a year ago, mainly due to lower sales. In many individual cases, however, these varying trends do not apply. Apparently the time is at hand when the larger and more strongly entrenched enterprises are finding it easier to hold markets than their smaller competitors who thus far in postwar have achieved gains with relatively little effort.

According to a study by the National City Bank of New York embracing 400 interim reports mainly of manufacturers, the combined sales for nine months rose about 22% over the same period last year. Combined net earnings of this group for the interval cited advanced at a faster pace of 31%, with total net of \$2.78 billion comparing with \$2.12 billion in the related 1947 period. As these figures include both gainers and losers, the showing on balance tells an interesting story.

Earnings vs. Sales Gains

The same thing is true in considering third quarter earnings alone, for these aggregated about \$985 million, up 6% compared with second quarter results and topping the March quarter earnings by 38%. Abnormally large gains made by some of the major industries, such as oil, steel and electrical equipment, apparently more than offset the drag of laggard or less dynamic forms of enterprise. Net profit margins on sales of the 400 concerns averaged about 7⅓%, continuing a slight uptrend in evidence established during the preceding three quarters. Broken down, though, the figures show that 48% of the companies had lower earnings in the September quarter than in the previous one, and 31% were lower than in the corresponding period of 1947.

Reported net earnings, as usual, were often distorted by bookkeeping adjustments involving deductions to swell reserves for inventories, contingencies and allowance for under-depreciation of facilities. In some cases this resulted in a substantial understatement of net earnings, as we will point out later in discussing individual reports. On the other hand, more than one concern experiencing a substantial decrease in inventory values has offset losses by utiliz-

ing previously established reserve accounts, thus outwardly making a better showing than current operations actually would indicate. Then, also, so many quarterly reports give only cryptic operating figures without explaining in detail just how they were arrived, that estimates of the real situation are inconclusive. The reports for the final quarter must be awaited to clear up some of these uncertainties: Annual reports tend more and more to outline the exact status of reported net earnings.

This year's extraordinary expansion in earnings by the oil industry is well illustrated by the third quarter report of Standard Oil Company of California. Sharply increased production plus price boosts raised sales for the period to $184.3 million, just about 50% over the third quarter level of 1947. Comparable volume for nine months was $535 million against $372 million, a gain of 43%. Net earnings of $3.03 per share in the September quarter rose 53% over the 1947 period, or a bit faster than sales, while on the same basis nine months net of $9 per share gained even more rapidly, or by about 75%.

Large Dividend Income

A significant factor in the revenues of this concern during the current year has been the receipt of $12.5 million in the shape of dividends from associated companies operating in foreign fields, an item not appearing in last year's reports. Huge investments in Arabian American Oil Co., undertaken jointly with Texas Company, Socony-Vacuum and Standard Oil Company of New Jersey, evidently are beginning to bear ample fruit. Additional weight is attached to S. O. of California's net earnings thus far in 1948 by the fact that they are after deductions of $38.8 million for estimated taxes, 170% higher than a year ago, and $42.2 million for depreciation, depletion and amortization, a $10 million increase over the first nine months of 1947. Besides all this, the company is said to have spent about $85 million for new production in the first half year, a portion of which may have been charged against operating revenues. All said it is pretty safe to assume that net earnings as reported were well on the conservative side.

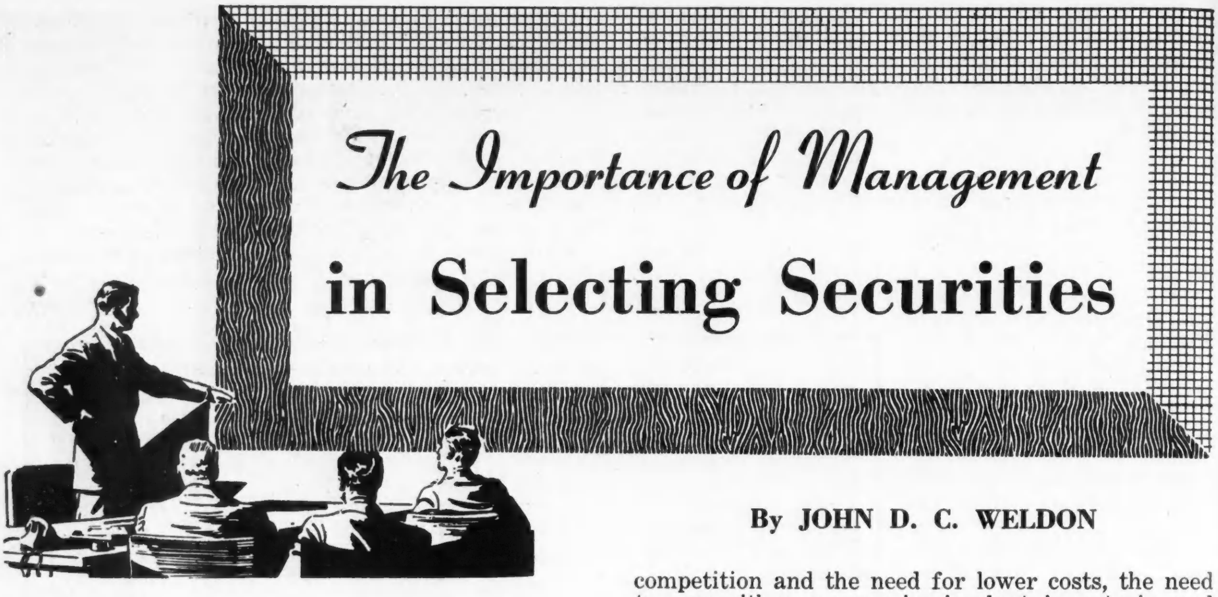
Net sales of Fruehauf Trailer Company, the leading specialist in its field, rose to $64.6 million for nine months from $62.5 million in the relative 1947 period, only a modest gain. After payment of preferred dividends, though, net earnings per share climbed to $3.59, a rise of about 50% above the $2.39 per share for the same interval of 1947. Obviously this attests to exceptionally good cost controls and benefits derived from the company's extensive modernization outlays, not to mention better material supplies.

From quarter to quarter, net earnings of this concern have varied rather widely, trending downward from $1.54 per share in (*Please turn to page* 205)

Record of Quarterly Earnings of Selected Companies

	Net Per Share						Net Sales*	($ mill.)
	3rd quar. 1948	3rd quar. 1947	2nd quar. 1948	1st quar. 1948	9 mos. 1948	9 mos. 1947	9 mos. 1948	1947
Allegheny Ludlum Steel	$1.06	$ .80	$1.19	$1.01	$3.26	$3.53	$89.6	$78.4
Amerada Petroleum	3.64	2.45	3.76	4.10	11.50	6.58	50.2	32.8
American Cyanamid	1.53	.78	1.31	.94	3.78	2,63	171.8	155.1
American Mach. & Metals	.51	.32	.25	.45	1.22	1.10	9.6	11.2
American Rad. & S.S. Corp.	.70	.36	.50	.48	1.69	1.06	169.3	137.4
American News	1.09	.84	.78	.97	2.84	2.47	130.4	121.5
Baldwin Locomotive Works	.33	def.18	.48	.34	.98	.60	89.7	67.9
Barnsdall Oil	1.43	1.09	1.50	1.52	4.46	2.83	27.4	17.6
Bethlehem Steel	2.34	.96	1.50	1.55	5.39	3.78	923.5	744.0
Cleveland Graphite Bronze	.87	.52	.84	.77	2.48	3.66	20.3	23.8
Colgate-Palmolive-Peet	1.52	2.62	.66	1.85	4.03	7.44	171.1	192.5
Crown Cork & Seal	.93	.89	.83	1.21	2.98	2.23	76.8	59.9
Diamond T Motor Car	.80	1.23	.88	.85	2.53	3.23	20.3	29.8
Douglas Aircraft	2.54	def.70	.67	.04	3.25	def1.95	80.2	92.6
Du Pont	3.24	2.14	2.66	2.46	8.36	7.27	714.8	582.8
Electric Auto Lite	2.04	1.85	1.39	1.81	5.24	5.24	145.7	136.3
Fruehauf Trailer	1.06	.32	.99	1.54	3.59	2.39	64.6	62.6
General Motors	2.67	1.64	2.43	2.12	7.22	4.62	3,436.3	2,688.1
Hazel-Atlas Glass	.53	.59	.54	def.04	1.03	1.70	45.4	46.2
Heyden Chemical	.43	.40	.66	.92	2.01	1.43	18.8	16.2
Inland Steel	1.56	1.24	1.34	1.73	4.63	3.32	280.7	224.2
Lone Star Cement	2.40	1.97	2.15	.96	5.51	4.78	39.4	34.5
Mack Trucks	.40	1.54	.68	.96	2.04	4.41	89.5	90.6
Marshall Field	1.24	1.05	1.40	.85	3.49	3.36	150.3	142.0
McCall Corp.	.70	1.46	.86	1.33	2.58	4.88	26.5	24.8
Mid-Continent Petroleum	2.63	2.00	3.62	3.77	10.02	6.87	106.5	81.1
Monsanto Chemical	.78	.72	.89	.85	2.51	2.87	119.4	105.8
National Cash Register	1.85	1.56	2.18	2.04	6.06	4.63	124.9	94.1
National Supply	2.28	1.71	1.55	.73	4.56	4.18	114.9	97.5
Park & Tilford	1.15	1.10	.82	.80	2.76	2.25	8.9	7.7
Philco Corp.	1.55	1.10	1.44	1.25	4.23	3.90	194.1	157.2
Pittsburgh Plate Glass	1.00	.70	.84	.75	2.58	2.36	206.8	196.6
Pittsburgh Consol. Coal	3.02	1.63	2.15	1.68	6.78	4.25	168.1	143.9
Pittsburgh Steel	3.84	1.44	1.19	1.34	6.38	4.30	71.2	61.7
Radio Corp. of America	.25	.19	.31	.36	.92	.71	256.3	223.9
Republic Aviation	.45	def.47	.55	1.30	2.27	def.96	39.4	20.5
Stewart Warner	.57	.44	.75	.70	2.02	1.50	56.0	56.9
Textron	.94	1.04	1.52	1.68	4.14	3.52	75.9	89.6
Tide Water Asso. Oil	1.31	1.09	1.37	1.71	4.40	2.71	278.2	216.5
Scott Paper	1.05	.75	1.10	.76	2.92	2.15	53.1	41.2
Skelly Oil	9.85	5.94	9.62	9.13	26.89	13.70	132.2	83.3
Smith Alex) & Sons	1.61	.84	2.20	1.68	5.48	3.91	61.6	45.5
Standard Oil of California	3.03	1.98	3.11	2.85	9.00	5.12	535.6	372.5
Union Oil of California	1.46	1.07	1.80	1.62	4.88	2.80	155.9	124.8
United States Steel	3.25	2.58	3.02	3.18	7.94	9.01	1,754.7	1,527.3
Wheeling Steel	5.99	3.84	4.55	4.09	14.63	12.41	111.8	93.9
Westinghouse Electric	.62	.94	.87	.97	2.45	2.53	711.3	583.3
Wrigley	2.25	1.10	1.18	1.07	4.51	3.08	45.4	36.0
Walworth Co.	.43	.46	.53	.43	1.39	1.16	30.8	27.6
Yale & Towne Mfg.	.69	.70	1.06	1.24	2.99	3.21	48.8	44.6

*—Or gross operating income.



The Importance of Management in Selecting Securities

By JOHN D. C. WELDON

Among the various considerations entering the appraisal of securities, sound management undoubtedly is one of the most important. For only able management can create the conditions that result in satisfactory earnings and sound growth. Ability to succeed in competion, good judgment in expansion or methods of financing it, and adaptation of production to changing trends of demand—to mention some of the more important requisites of business success, will always be decisive in shaping a company's future just as absence of these qualities will inevitably lead to deterioration.

Still it is not always easy to select an unusually capable management because objective tests of managerial ability are often lacking. In most cases one must rely on reputation. Thus, to mention but one example, in the chemical field the du Pont management has an excellent record. A corporation under du Pont management is presumed to be sound. There are many others, of course, that have similar merit, just as there are a good many mediocre or poor managements. Whatever their nature, it usually finds reflection not only in the fortunes of their companies but in the market valuation of the securities of these companies. It's the record, then, that provides perhaps the best test of managerial ability.

Broadly speaking, the most convincing proof of capable management lies in a superior comparative record over a given period of time. Where good management is thus revealed, the market is prone to place a heavy premium on it: First by liberal capitalization of earnings, and second by a substantial increment for "good management" in the form of a market premium. Good earnings and sound growth bring their own reward.

The acid test of good management does not occur in times of booming business; it comes when the sledding get rough. This explains why numerous changes in management often occur at the end of a boom period or in the midst of a deflation period. The reason is that recessive business conditions create their own problems, or intensify existing ones, and they must be faced efficiently and wisely to avoid losses or worse. They show up past errors and the need for their correction. They bring keener competition and the need for lower costs, the need to cope with overexpansion in plant, inventories and receivables, or with threatening losses due to unwise diversification. Some of these problems are beginning to emerge today though no recession exists; others are bound to arise in many cases as we progress further towards more balanced economic conditions. They will test the mettle of almost every management, and their manner of meeting these problems, the degree of success they will have, will show what stuff they are made of.

In these days, however, management tests center not only on questions of how to run a business successfully from a purely operational standpoint, important as this is. The responsibility of management today goes considerably beyond that. Top management must have an intimate knowledge of economics, a working knowledge of social forces, and must be possessed of a strong social conscience. It has the burdensome responsibility which arises out of the very nature of its job, its collective power and its position of trust, to operate a business in such a manner that it will serve to the best advantage, and the best long range interests, of the public at large. This is a large order but it cannot be dodged, though many would like to try.

Not the least of these problems center on dividend, wage and price policies, on management's relations with stockholders, workers and consumers. In these respects, management has failed to get its story over to the public. Hence stockholders are wondering about heavy special charges that reduce earnings and dividends. The public is wondering whether wage increases were not merely used as an excuse to put prices up as high as the traffic would bear. With some justification, it is asking management what contribution it has made to the over-all job of halting inflation.

Management Attitude Towards Labor

Some managements have lacked a constructive attitude towards labor. Others have done little or nothing towards cost reduction despite the fact that managements who work in this direction will find that it will ultimately pay high competitive dividends. Until recently there has been a marked

reluctance to re-examine swollen payrolls, cut down prolific management spending, to reform wasteful buying habits, cut out frills, and generally stop the wartime habit of neglecting cost factors and reach for easy profits.

There have been many complaints about high break-even points but in some lines few real efforts at cost-cutting. In the labor field, there is not always adequate stress on human relations that will help raise worker productivity. There is a tendency to meet lagging demand—where it occurred—by curtailing output. The coming months will show the need for business statesmanship in resisting further price increases. Success in this direction will among other things call for good management, for realization that maintenance of volume will be the best means for coping with higher break-even points.

Earnings vs. Dividends, Wages, Prices

Big corporate earnings are raising a great many questions about dividend, wage and price policies, calling forth various suggestions for policy changes. Workers want higher wages, consumers suggest lower price, shareholders feel entitled to more substantial dividends. Of the three groups, shareholders are probably the least vocal in pressing their demands, therefore often the least successful, a fact that calls attention to the present state of stockholder-management relationships.

These relationships, after many unsound developments in former years, have since been subjected to salutary changes, emanating not only from the SEC but from a more critical and enlightened viewpoint generally. Still certain elementary facts are frequently slighted. After all, corporations are in law the property of the stockholders who own them. Corporate officers are only the paid employees of the stockholders. Directors, however chosen, are virtually trustees whose legal duty it is to act solely in behalf of the owners of the business — the stockholders.

Actually, as we know, it doesn't always work out that way. Directors are frequently mere figureheads. Stockholders often have no clear view of their true interests in dividend policy, expansion policies, depreciation and reserve policies, in the use of corporate cash for non-operating purposes, in the various methods of compensating management, and generally in the fundamental question whether the owners' capital shall remain in the business and to what extent, or whether it should be distributed, wholly or in part. Sometimes this is the stockholders' fault, more often it isn't; but many shareholders regard their annual meeting privileges lightly.

Some Stockholder Questions

Today, particularly, many a disgruntled stockholder asks: What good are big profits if you cannot get them? And if his question is to carry beyond the mere rhetorical stage, he may have to ask this insistently and add another question. What good are directors if they cannot vote higher dividends when the profits are clearly there with which to pay them?

When questioned on the use of profits, managements usually have their answers ready. They hold that at this stage corporate profits should be used judiciously, that continued corporate health requires that a large portion of current earnings be plowed back, that the money is needed for expansion and improvement, for accelerated depreciation or as a safeguard against possible future reverses. All of which is quite plausible but the real point is: How far should management go in this respect?

The plowing back of earnings has become a widespread custom. It is due partly to the difficulty of raising capital in the market, but frequently also to preference for internal rather than external financing, particularly if the latter, as presently, must be done via debt financing. Some of the retained profits are being used to build up or improve plant and equipment, to modernize, or simply as working capital. Some is merely kept in the banks or invested in low interest government securities. Sometimes it may be invested in stocks of other companies, in the acquisition of new concerns, even for the repurchase of a company's own securities. Also, depreciation policies are being changed rather generally and based on replacement costs rather than original costs, calling for substantial deductions from current earnings.

Retained Profits Not Always Beneficial

To the extent that profits are being used to build up earning power, the stockholder may gain later in dividends what he had to forego for the time being; but he cannot always be certain of it. Sometimes he is merely supplying capital for the ultimate profit of another, future stockholder. What's more, the market usually fails to evaluate properly profits kept in the business; stock prices are based on reported profits and dividends paid, not on book values.

Thus while it is hard to draw a rigid line, many investors feel that they are entitled at least to disbursement of 60% of earned profits. Yet the average ratio is less than 40% and many concerns fall considerably below that. Some of the strongest are down to 20% or 25%.

In most cases there (*Please turn to page* 200)

Some Companies Where Management Holds Substantial Stock Interest

	Outstanding Common Stock controlled by Management*
Arnold Constable	58%
Babbitt (B. T.)	67%
Colonial Mills	32%
Deere & Co.	27%
Dist. Seagrams	53%
Froedtert Grain	67%
Gotham Hosiery	27%
Grayson-Robinson	55%
Gulf Oil	43%
Johnson & Johnson	63%
Newmont Mining	33%
Phoenix Hosiery	70%
Reeves Bros.	49%
Spencer Kellogg	43%
Squibb (E. R. & Sons)	66%
Sun Oil	46%
Superior Oil Cal.	53%

*Figures are approximations based on recently available data but subject to later changes.

POST-ELECTION NOTES

By E. K. T.

REPUBLICAN overconfidence, as President Truman had assured intimates it would, played a major role in returning him to the White House. He had counted on that from the start and he was aided by poll reports which revive memories of the Literary Digest fiasco. The total vote was surprisingly low, mainly because the GOP didn't sense the need of a concerted campaign to bring about the opposite result. But organized labor delivered a huge Truman vote in areas where it counted most. The issue of the Taft-Hartley "slave labor law" had been discounted by both parties as a factor in determining the outcome. Each, obviously was in error there.

ORGANIZED LABOR is claiming a large share of the victory. That is conceded a reasonably fair position. It can be pointed out that in West Virginia, where there was a close race, John L. Lewis' miners apparently voted for Mr. Truman in spite of their chief's command to support Gov. Dewey; in short, that they balloted as free-thinking citizens rather than as a bloc controlled from the top. The price which unions are asking in return for their aid is repeal of the Taft-Hartley Act. That isn't in prospect. But softening amendments appear a certainty.

DIXIECRATS, the political group that died aborning, will not be a factor in the organization of either house of congress. The democrats proved they didn't need the newly-formed bloc; the republicans didn't want the maverick party. But there will not be any overt act of punishment—despite the fact that the democrats have the votes to put the Dixiecrats aside in dispensing committee chairmanships and seniority posts. Few are in line for promotions on seniority. They'll get promotion, a cold shoulder, accept eventual absorption.

FORECAST in Washington is that Thomas E. Dewey will be the "forgotten man" of the republican party. Titular leadership normally is bestowed on the nominee of a defeated party; but Dewey has the dubious distinction of being the first republican to head his party to defeat in successive elections. And he has opposition, approaching enmity, among the GOP leaders in congress and in his party. Strange as it might have seemed a few months ago, Herbert Hoover rather than Thomas Dewey will be the rallying point of GOP policy.

WASHINGTON SEES:

Among the objective analysts who examined the results of the election, the conclusion is general that one of the most important, if less dramatic, happenings of the day was the choice of a congress dominated by members of the President's party.

Whether Mr. Truman carried the democrats into senate and house control, or rode in on their coattails, will be debated. But regardless of the outcome, it is clear that both the executive and the legislative arms of the government can get down to work without expending time and effort—and the nation's welfare—on petty partisan bickering.

Had Mr. Dewey been elected under the same favorable auspices, namely, with a republican-controlled congress, the identical desirable result would have been achieved from the standpoint of closing the gap that has widened the two ends of official Pennsylvania Avenue. But, from the very beginning, there seemed little doubt that the democrats would control the senate, even if Mr. Dewey went to the White House, and unity would have been close to unattainable. Important in that respect, is the fact that it is the senate which dominates international relations, the most delicate problem facing the United States and the world.

From every practical viewpoint (dismissing party politics as played in situations where there is division of control) there will be a fixed undivided responsibility which cannot but keep the Executive and the congressmen on their toes.

See Holiday Gift Offer in this Issue

As We Go To Press

Special Washington Report on Economic and Business Significance of President Truman's Election

A special canvas of well-informed opinion in and out of Government indicates that the fears reflected in recent stock market developments, while natural are not well founded.

To begin with, President Truman is not by nature a vindictive man. If FDR had won an election against the odds that Truman faced, with almost all business and industry arrayed against him, he would start at once to lay the lash on those who had not "gone along." Truman will not.

It is well to bear in mind that Truman learned the importance of business and industry in times of national emergency, when he was chairman of the senate's war investigating committee.

There is not a single instance in which that committee -- dominated by Truman -- made a major decision which was not unanimous.

In other words, people like Senators Brewster and Ferguson were able to follow him. The president is completely cognizant of the implications of the Russian problem and is not likely to do anything that will lesson industry's ability, or desire, to cooperate.

He will have to watch Tom Clark closely. Clark is an evangelist in the fight against "big business" and to Clark it appears that all profitable enterprise is "big," therefore suspect.

But it must be borne in mind that the election had added nothing to Clark's authority; he was just as well able to harass business under a republican-controlled congress as he will be under one democrat-controlled. He didn't have to go to congress anyway. His recourse was to the grand juries and the courts.

Even if we consider that Clark has even greater prestige in the White House now than ever before, we must ask the question: what can he do now that he wasn't doing before?

Barkley is not anti-business although he beats his breast in great indignation when the political exigencies of the times indicate the wisdom of doing that. He'll follow Truman. And a vice president isn't a power, even if he should decide to stray off the reservation.

Sam Rayburn, returning as speaker, is regarded the second most important office holder -- boss of the congressional house that originates most legislation. Rayburn has given industry the hot-foot in the past, authored many of the control laws of early FDR days. He's reported to be mellowing with age, satisfied that he has covered the principal subjects he thought needed attention, and won't be a threat.

Snyder policies will prevail against those of the Eccles crowd. Snyder is close to the President; Eccles is not. It means that a cautious course will be followed in matters implying deflation.

Eccles is safe to be put down as an early emigre from Washington. Mr. Truman deposed Eccles in a deal in which the White House claims it had assurance he would "go along" on Administration policy. But Eccles promptly went to Capitol Hill and blasted the Truman programs. Eccles probably could successfully fight an ouster move...but he'll be made so uncomfortable if he decides to wage battle that he'll eventually give up.

Truman will ask and get "stand-by" control legislation. The field will be broad, but the laws will not be invoked, it is assured, unless a situation arises in which there would be bi-partisan demand for bringing them into play.

Rent control will be extended beyond the March 1, 1949 deadline; some housing legislation will be passed -- public housing; foreign aid will be continued after a fight, but there'll be no throwing away of money.

Rep. Jesse Wolcott is out as banking and currency committee chairman and Rep. Brent Spence is in. Spence isn't active. Rep. Wright Patman, close to the White House, will dominate the committee. He's for the "little man"; will be a threat to business and industry.

The finance committee of the senate will be headed by Senator Walter George, one of congress' most conservative members.

It is much too early to hazard forecasts on specific items of legislation. One thing is certain: the basic laws under which executive departments have been operated will be gone over, amended to meet the needs demonstrated, in some instances, by the history of almost half a century of national existence that has passed since the organic laws went on the books.

The Federal Trade Commission: FTC hasn't been sympathetic to business but a change is in the making. Under the revolving chairmanship policy there, Commissioner Lowell Mason is to be chairman. Mason is business-minded. One current situation will suffice, namely, his fight to offset the Supreme Court decision outlawing basing point and zone pricing systems.

The Federal Trade Commission will come under the Capitol Hill spotlight. Expectation is that this trade regulating body will have its wings clipped, and that even the Robinson-Patman Act will be roughed up and changed. Procedural ills are marked out for cure.

It is reasonably safe to say that congress will pass laws offsetting the U. S. Supreme Court ban on basing point pricing. Demands by business and industry for such laws are backed by almost all the newspapers in the country. The bills have been drawn.

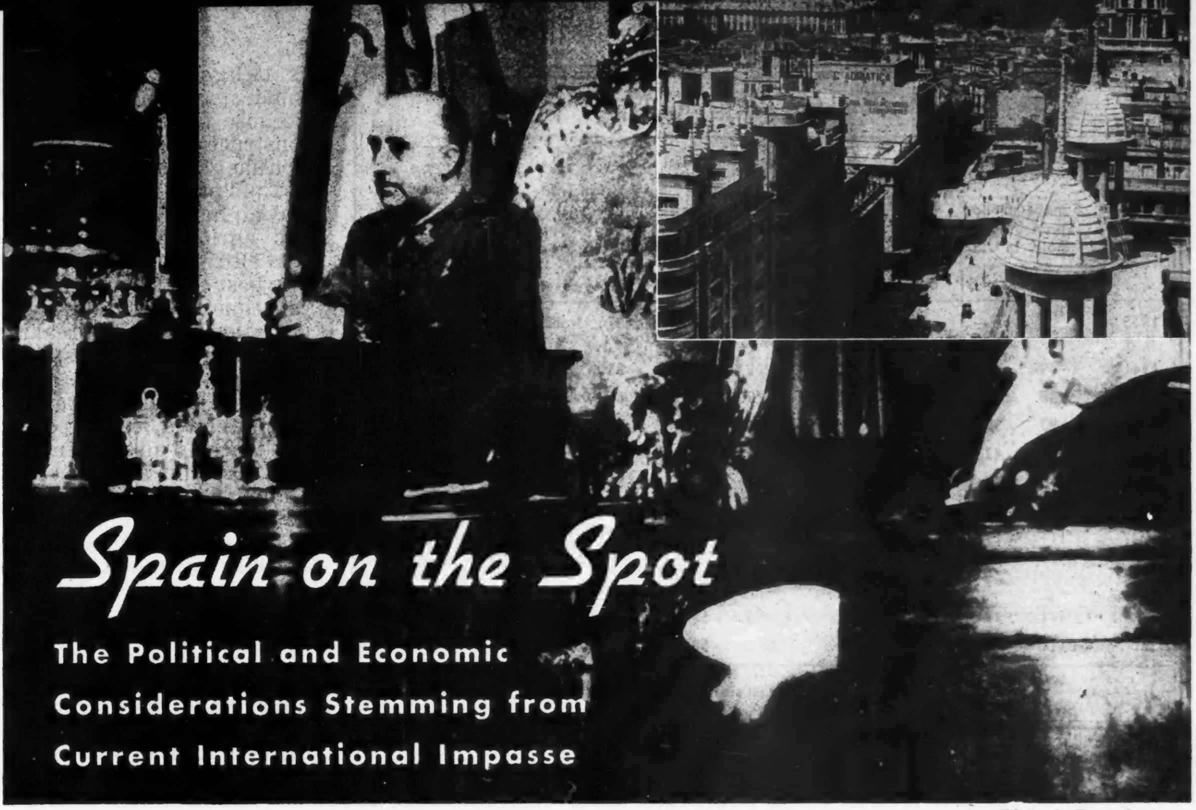
The European Recovery Plan is in for hard sledding in the next congress. A privately-conducted poll found most members unwilling to commit themselves on the subject of providing additional funds without evidence that such spending will not continue to have an adverse effect on prices in this country, and proofs that the beneficiary countries will do more to aid themselves than the reports of the past months have indicated.

Speculation on Cabinet "firings" when the new Truman term begins in January places James V. Forrestal at the top of the list. Forrestal did nothing to aid his Chief in the campaign. Truman's inner circle calls this a "vote of no confidence" and urge the Chief Executive to return the compliment. He's reported to be leaning in that direction. Secretary Royall of the Army is likely to beat the President to the draw by voluntarily retiring. It was Royall who, in the midst of the campaign, went on the air to declare the election of Mr. Truman to be "desirable" but not essential.

There will be a change in the State Department -- Secretary George Marshall will insist upon the retirement he hoped for when he quit as Chief of Staff in the Army. He took a special Ambassadorship to China at White House behest, then became Secretary of State "as a good soldier." Marshall needs the rest but could have been counted upon to remain had it not been for the "affair Vinson" -- Mr. Truman's proposal that the Chief Justice make a personal visit to Josef Stalin. Marshall wasn't let in on the plan, which blew up. He'll use the excuse of needed release from burdensome duties, but the real reason is the Vinson incident.

W. Averell Harriman is currently regarded most likely to succeed... Marshall. The President has great confidence in his former Secretary of Commerce who now is special legate to Paris. And Harriman is willing. Former Under Secretary Dean Acheson is in the running, but a poor second -- in the speculations -- to Harriman.

An administrative crisis exists in the State Department by reason of insistence by Under Secretary Robert A. Lovett that he be allowed to retire Jan. 20 to return to his private banking enterprises. Efforts are being made to prevail upon the President to implement the bi-partisan foreign policy by appointing John Foster Dulles to second spot from the top. Mr. Truman is cold to the suggestion.



Photos by Press Assoc.

Spain on the Spot

The Political and Economic Considerations Stemming from Current International Impasse

By V. L. HOROTH

The outcome of the Presidential elections here must have come as a sad disappointment to the Spanish dictator, Generalissimo Francisco Franco. It has been known that the men around him put high hopes in a change of government in the United States. They apparently believed that a Republican Government in Washington would assume a friendlier attitude toward Spain's need of, if not a government then at least a private loan.

This was not the first disappointment. Franco is said to have hoped earlier this year for a communist victory in Italy, on the theory that the United States would spare no expense to build up Spain as a barrier against communism, much as we are now strengthening Turkey and Greece.

The Europeans, who are quite cynical about international politics, claim, half seriously and half jestingly, that General Franco has been staying in power "through the grace of Stalin." By this they mean that if it were not for the growing threat of Russian expansion, Franco might have been forced out a long time ago. But in recent years the conviction has been growing that the Franco regime in Spain is definitely a lesser evil.

The people in Spain today are generally undernourished, tired, and horrified at the thought of another civil war. Despite discontent and passive support for the monarchy there is no organized opposition except that of the communists. Communist behavior during the Civil War days discredited them thoroughly in the eyes of the Spanish people; up to now their number has been small, though it may grow if the economic situation continues to deteriorate.

The delivery of Spain into the hands of the Kremlin would be no laughing matter. Because of Spain's highly strategic location, our position in Greece and Turkey would be greatly weakened and would require reconsideration. However, Moscow chances are extremely slim. General Franco is well in the saddle—and his chief worry is the shaky economic position of Spain rather than political opposition.

Plea for Friendlier Ties

It has been due largely to the intensification of the "cold war" between the East and West, that efforts have been redoubled to put relations between Franco's Spain and the United States on a more friendly basis. Besides guarding, together with Gibraltar, the western entrance to the Mediterranean, Spain possesses a number of natural harbors ideal for anti-submarine activities, and mountain protected plains that would be equally ideal for air bases. Furthermore, the great mountain barrier, the Pyrenees, is rugged enough to stop any invader that might over-run Western Europe.

Beside military advantages, Spain could make a number of valuable contributions to Western European recovery if included in the ERP. It has surpluses of citrus fruit and olive oil; its output of non-ferrous metals and iron ore could be raised substantially if mining equipment could be modernized, and Catalonian cotton mills could turn out badly needed textiles in sizable quantities if raw cotton were available.

The U. S. House of Representatives has been mindful of these possibilities and last March voted a proposal to include Spain in the Marshall aid. But the move was quickly forestalled by President Truman. More recently a number of prominent American visitors have interested themselves in bettering Spanish-American relations. Mr. Myron Taylor,

Spain: Banking, Prices and Trade

End of Year	Bank of Spain Gold	Dollar Balances in U.S.	Notes in Circul.	Commercial Bank Deposits	Wholesale Prices Official	Retail Food Prices	Foreign Trade: Total Imports	Foreign Trade: Total Exports	U.S. Trade with Spain: Exports to Spain	U.S. Trade with Spain: Imports from Spain
	(in millions of $)		(Billions pesetas)		(July 1936 = 100)		(mil. of pesetas)		(mil. of dollars)	
1935	....	......	4.8	8.7	100	100	876	588	41.3	20.0
1941	49	6	13.5	16.9	208	300	550	521	14.3	14.5
1942	45	18	15.7	19.6	229	318	610	631	2.9	8.1
1943	93	32	16.4	22.2	256	310	913	878	28.2	18.6
1944	105	43	17.7	25.4	275	323	827	957	25.8	49.6
1945	110	32	18.9	30.1	305	347	862	874	40.8	57.4
1946	111	16	22.8	32.8	365	491	923	791	42.7	48.3
1947	111	13	26.0	....	430	581	1,012	937	32.1	26.6
1948										
June	111	18	24.6	....	455	613†	1,300‡	1,100‡	25.0‡	36.0‡
Sept.	111	......	....	....	....	581	....	....	....	....

†—April ‡—Estimated on the basis of the first six months

President Truman's representative at the Vatican, was the first one to talk with the Generalissimo. Other visitors included Senator Chan Gurney of South Dakota, who heads the Senate Armed Service Committee, Senator J. W. Fulbright, Rear Admiral E. T. Woodridge, Senator Alben Barkley, and Mr. Eric Johnson, president of the Motion Picture Association. Another visitor, former Postmaster General James A. Farley added his plea to that of many other well-meaning persons who, largely for religious reasons, argue that Spain deserves a helping hand to overcome its present difficulties.

Unfortunately General Franco, instead of meeting us half way, has been apparently led to interpret our attempts at greater friendliness as a sign of weakness. Eager to get as many badly needed dollars as possible to help his country's rehabilitation, he has apparently put a price—some $1,450,000,000—to be paid to him over a four-year period—on his cooperation, but he would accept less—considerably less. The point is that General Franco needs the dollars for American steel, machinery, tools, rolling stock, and fertilizers—to name just a few of Spain's requirements—far more than we need his airfields and harbors—or even his Pyrenees.

Heritage of the Civil War

Economically Spain has not yet fully recovered from the wanton destruction of the civil war fought from the Summer of 1936 to the Spring of 1939. It is true that factories and railroads have been rebuilt — or more correctly "patched-up." However, little new equipment has been available. At the beginning, the Regime had no money. Under the Republic the huge gold reserve placed at about $730 million in the Summer of 1936 had been dissipated largely for the conduct of the war. What was left was taken abroad by the Republicans. During the war, when Spain came into some money by selling to both sides at high prices such strategic materials as tungsten, neither side could spare any equipment. Because of the delay in reconstruction the deterioration has gathered momentum.

The "patching up" of railways, factories, highways, and agricultural equipment was all right during the first few post-Civil War years. By this time, however, the transportation system is breaking down. There is a desperate shortage of rolling stock, and since hardly any railway supplies have been imported, the track is also deteriorating; accidents are numerous, although not reported in the newspapers.

Industrial equipment is likewise worn out, and the flow of production is being constantly interrupted for making repairs or because of the shortage of raw materials. The Barcelona cotton mills have been reported closed from time to time because of lack of raw cotton. Similarly sardine and olive-packing plants have had to limit their pack because Spain has no dollars to buy the tin plate which recently was allocated to it by the United States.

The lack of fertilizers—chiefly nitrogenous—has played an important part in reducing crops since 1939, particularly those of bread grains. In contrast, the Spanish population has increased in the past nine years by more than 10 per cent. To feed this growing population and to prevent shortages, Spain will have to import more food, modernize its farming methods, and build more water works and hydroelectric stations.

Deterioration of Transport System

The steady deterioration of the transport system has had serious consequences. There are not enough trains to transport available goods from one part of the country to another. Coal heaps at the mines are growing for that reason. Because of the lack of transportation it has been impossible to move all of the last two big olive crops from producing to consuming areas. Since there has not been enough storage space either, a part of the harvest has been lost. Yet, at the same time throughout the non-olive growing areas there has been an acute shortage of olive oil, a vital item in the Spanish diet.

The deterioration of the transportation system and the constant breakdowns in factory production have contributed greatly to inflation. Prices differ widely from district to district. The grower in the Jaen districts, where the bulk of the olive crop is grown, may not get more than about 10 pesetas for a litre of olive oil, which in the north may cost in the black market 100 pesetas a litre or even more.

The official figures show that wholesale prices are about 5 times—and the cost of living about 4 times as high as before the war (see table). Actually the cost of living is at least 10 times as high as it was in 1936 just before the outbreak of the Civil War,

based on a combination of official and black market prices that all Spaniards must pay, because official rations (varying from district to district, and from period to period) are so low that people would starve. At the same time, wages have risen but 40 per cent since 1936. The daily wages of ordinary workmen fluctuate around 15 pesetas a day. This is only slightly more than the cost of two pounds of bread bought on the black market. To keep qualified workers on the job, many industrial plants have been paying bonuses in factory products which workers then resell in the black market.

Spain: Production and Public Finances

	Steel output	Electric power	Coal Output	Lead Output	State		Public Debt	National Income
					Receipts	Expend.	Estim.	
	(000 tons)	(000,000 kwh.)	(000 tons)	(000 tons)	(millions pesetas)		(billions)	(billions)
1935	597	3,271	6,297	71	4,588	......	24.3†	24.8
1941	574	3,889	8,760	43	6,413	......	......	43.7
1942	601	4.613	9,252	39	7,869	......	46.0	50.4
1943	654	5,072	9,588	34	9,440	......	60.0	57.0
1944	641	5,146	10,488	31	10,330	13,338	65.0	......
1945	560	3,943*	10,728	25	10,544	12,234	70.0	70.0
1946	595	5,230	10,692	30	11,128‡	13,239	76.0	......
1947	545	5,568	10,496	28	13,000‡	14,093	......	......
1948 Ests.	480	6,000	10,400	20	......	......	......	......

*—Exceptionally dry year †—Funded Debt only ‡—Preliminary estimates

The inflation has made Spanish products too high, and almost impossible to sell in world markets. Spanish quicksilver, olive oil, oranges, almonds, cork are going begging, particularly since some of the competitors, such as Italy, have revalued their currency. Spain has even difficulty in selling such strategic material as tungsten. As to manufactured products, they are sold almost exclusively in the domestic market.

To encourage exports in order to get some dollar exchange, the Spanish industrialists have been urging the Government to devalue the pesetas which is officially quoted at 11 to the dollar. The preferential rate for travelers and for certain exports is 16.8 pesetas to the dollar. However in the black market the dollar bought last Summer—when the future of Franco's regime became somewhat uncertain—as many as 40 pesetas. Since then the dollar dropped to about 30 pesetas in Madrid, but it is still quoted at over 40 pesetas in Tangier.

The Army and the Bureaucratic Machine

The maintenance of a large army, and the cumbersome working of a huge bureaucratic machine which exercises a centralized control over foreign trade as well as over inter-provincial trade, has also contributed to inflation. The army expenditures, hidden in the budget, have been responsible for the succession of heavy deficits, and the growth of the public debt to a level at least three times prewar. Also, the Army has the first call on the country's production; it maintains special stores which are said to be the principal sources of black market goods.

The bureaucratic machine enjoys special privileges. Since Spain is a corporate state, like Italy under Mussolini, all supplies and equipment for individual industries are handled by special agencies in Madrid (there are hundreds of them). These agencies are in turn responsible for the distribution of the product. The system is not only inefficient, but invites corruption. The officials are known to have made fortunes by selling in the black market the supplies supposed to go to individual factories.

Desperate Need of a Loan

Since the army and the officialdom are "the state," there are none of the safety valves provided normally by opposition in democratic countries. Any criticism is simply impossible though from time to time the Catholic Church—the Spanish bishops and the Vatican—have been critical in attempting to right the more obvious wrongs.

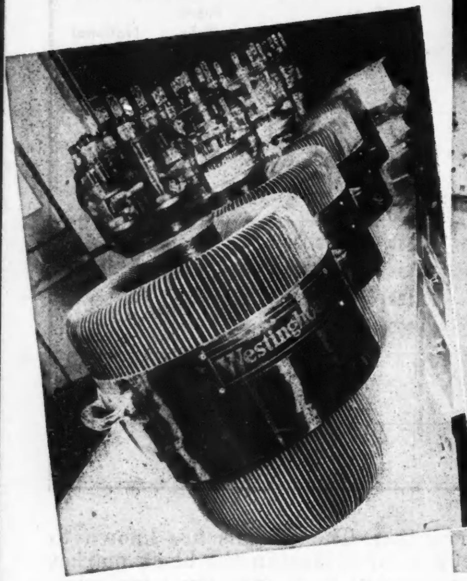
Spain is in desperate (*Please turn to page* 202)

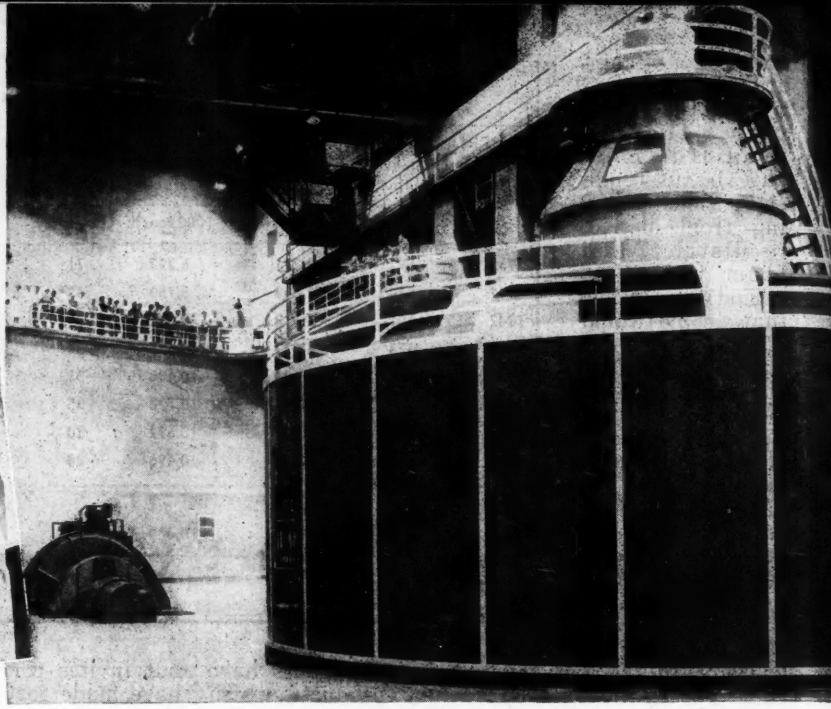
U. S. Trade with Spain in 1947

In million of dollars)

Principal Imports:	
Fruits and preparations (olives)	$13.2
Vegetable oils (olive oil) (a)	2.7
Cork and manufactures	2.7
Nuts and preparations	1.4
Spices	1.2
Sardines and other fish products	1.2
Metals, alloys, ores (wolfram)	.8
Industrial chemicals and soap	.5
Glass and clay products	.4
Other imports	2.5
Total Imports	26.6
Principal Exports:	
Automobiles and parts	4.5
Electrical machinery and apparatus	4.1
Misc. machinery and tools	3.6
Steel Mill products	1.4
Petroleum and petroleum products	4.9
Cotton, raw	2.6
Coal tar products	1.4
Pharmaceuticals	1.1
Vegetables and preparations	.8
Other exports	7.7
Total Exports	32.1

Expansion plans of the electric utility industry, totalling some $6 billions, have created financing problems which under current market conditions are difficult to solve





Realistic Survey of Electric Utility Companies

By EDWIN A. BARNES

The electric utility companies have enjoyed the most consistent growth record of any major industry. Since 1926 they have increased their output from 65,000,000,000 KWH to an estimated 230,000,000,000. Because of rate reductions, revenues did not gain as fast—from $1,415,000,000 to an estimated $3,800,000,000. And due mainly to constantly increasing taxes and fuel costs, net income for stockholders has increased only from $400,000,000 to about $675,000,000 (estimated for the current year).

In the 1920s the utilities did a substantial amount of financing (it was easy then to sell preferred and common stocks) and generating capacity increased from 12,000,000 KW in 1920 to 30,000,000 KW in 1930. During the 1930s, due to the prolonged depression, capacity gained only 4,000,000 KW, but during the war the total was pushed up to 40,000,000. New construction during the period 1932-1945 was financed almost entirely out of surplus earnings; the utilities sold only a moderate amount of bonds for new capital, and there was little or no stock financing.

The utilities did a marvelous operating job during the war. With generating capacity only 33 per cent greater than in 1930, they handled an increase in output of 116 per cent. They were able to do this because (1) they had had some excess capacity in the 1930s, (2) there was also a "normal" reserve capacity for emergencies of about 20-25 per cent; (3) new devices such as high-pressure topping units, hydrogen cooling, etc. have increased efficiency considerably beyond name-plate capacity; and (4) utilities have been widely inter-connected, so that they could pool their resources and sell each other power in emergencies. In addition (though the figures are not included above) the war effort was aided by the construction of big Government dams and power plants—TVA, Bonneville and others—which cooperated with the private utilities.

During the war it was anticipated that business activity and the demand for power might decline sharply after the end of the conflict. But instead of 8,000,000 unemployed forecast by Government economists and others, a business boom developed exceeding all expectations. Power demand dropped off a little when some of the big aluminum plants and munitions factories closed, but it soon started rising at a rapid rate in 1947. Leaders in the electric power industry began to realize that the industry had used up all its reserve capacity and that it would have to strain every effort to supply the increased post-war demand.

The Factor of Fuel Costs

With old and inefficient steam plants (normally used only in emergencies and to handle the peak load around Christmas) in almost steady use, the industry was paying a big fuel bill, and was being doubly penalized by the rapid rise in the price of coal and fuel oil. Only those companies (mainly in the South) which were able to use cheap natural gas as boiler fuel escaped this penalty of rising costs. The increased industrial load was unprofitable to most coal-burning utilities—the new business was mainly on a low-rate and high-cost basis.

Hence, it was imperative to install new generators and other facilities as quickly as possible, for three

purposes—(1) to substitute new efficient equipment for the old obsolete plants (reducing fuel cost as much as one-half in some cases), (2) to restore a normal margin of safety in operations, and (3) to provide for continued growth of the business, anticipated during 1948-52.

Under the leadership of the Edison Electric Institute, almost all electric companies laid out construction budgets in 1947 for the four-year period 1948-52. One company, Union Electric of Missouri (a subsidiary of North American Company), even announced plans for spending the huge sum of $375,000,000 over a 15-year period, but for the most part the utilities were content to look ahead only four years. The Institute compiled the industry's totals for these plans, arriving at a round figure of $6,000,000,000 (for the electric utilities only).

Since at that time it took two or three years to obtain delivery of the big turbo-generators, it was necessary to formulate a long-range program. There are only four companies making large generators — General Electric, Westinghouse, Allis-Chalmers and Elliott—and all of them have been booked far ahead with orders. There was some talk of trying to set up mass production of generators, but this did not prove feasible since the larger machines have to be hand-tailored to meet local conditions and varying plans.

Statistical Data on Electric Utility Operating Companies

Company	Recent Price	1948 Price Range High Low	Dividend	Yield	Earnings 12 Mos. Ended		Price Earn. Ratio
Cincinnati G. & E.	27½	29¾-23⅛	$1.40	5.1%	June	$1.97	14.0
Cleveland Elec. Illum.	40½	42¼-34½	2.20	5.4	June	2.65	15.3
Columbus & So. Ohio Elec.	41	43¾-35½	2.80	6.8	June	4.12	10.0
Commonwealth Edison	27	29⅜-25⅛	1.50	5.6	Sept.	1.73	15.6
Cons. Edison of N. Y.	24	25⅛-21	1.60	6.7	Sept.	2.29	10.5
Cons. Gas of Balt.	63	70 -62⅜	3.60	5.7	Sept.	3.86	16.3
Consumers Power	33½	35⅝-32¼	2.00	6.0	Sept.	2.78	12.1
Dayton P. & L.	30	31¾-24⅜	1.80	6.0	June	2.24	13.4
Detroit Edison	20½	21¾-20	1.20	5.9	Sept.	1.41	14.5
Gulf States Utilities	17	18½-14	1.00	5.9	Aug.	1.67	10.2
Houston Lighting	46	49 -38	2.20	4.8	Sept.	3.69	12.5
Illinois Power	28	30 -25½	2.00	7.1	June	2.90	9.7
Indianapolis P. & L.	22½	25⅛-20⅝	1.50	6.7	June	2.66	8.5
Northern States Pwr. (Minn.)	9	9¼- 8⅜	0.60*	6.7	June	0.89	10.1
Ohio Edison	30½	34½-27½	2.00	6.6	Sept.	2.80	10.9
Pacific G. & E.	33	36⅞-30½	2.00	6.1	July	2.22	14.9
Penn. Power & Light	18½	20¼-17¼	1.20	6.5	Sept.	2.30	8.0
Philadelphia Elec.	22	24⅞-21⅜	1.20	5.5	Sept.	1.60	13.8
Potomac Elec. Power	13½	14¼-12½	0.90	6.7	June	0.86	15.7
Pub. Ser. of Colorado	37½	39⅝-32½	2.20	5.9	June	4.73	7.9
Pub. Ser. E. & G.	21½	24¾-20¾	1.60	7.4	Apr.	2.05PF	10.5
So. Calif. Edison	29½	30⅞-25⅛	1.50	5.1	June	2.01	14.7
Virginia Elec. & Power	16½	18⅜-14¾	1.20	7.3	Sept.	1.37	12.0
Wisconsin Elec. Power	16½	18 -15	1.00	6.1	June	1.65	10.0
Average				6.2%			12.1

*Estimated PF—Pro Forma.

Because of rising construction costs there has been some doubt whether the construction program can be completed for $6,000,000,000—it may cost $8,000,000,000 or more. However, most calculations regarding financing for the industry have been based on the original figure. Here is the way Ebasco Services, Inc., service subsidiary of Electric Bond & Share, estimates the method of financing the cost:

	Billions
Depreciation and amortization accruals	$1.8
Surplus earnings	.8
Sale of mortgage bond and debentures	2.1
Sale of preferred and common stocks	1.3

This would mean that in each of the four years, the electric utilities should sell some $525,000,000 bonds and debentures, and $325,000,000 preferred and common stocks. On this basis during the four-year period, funded debt would increase about 32 per cent and capital stock about 28 per cent.

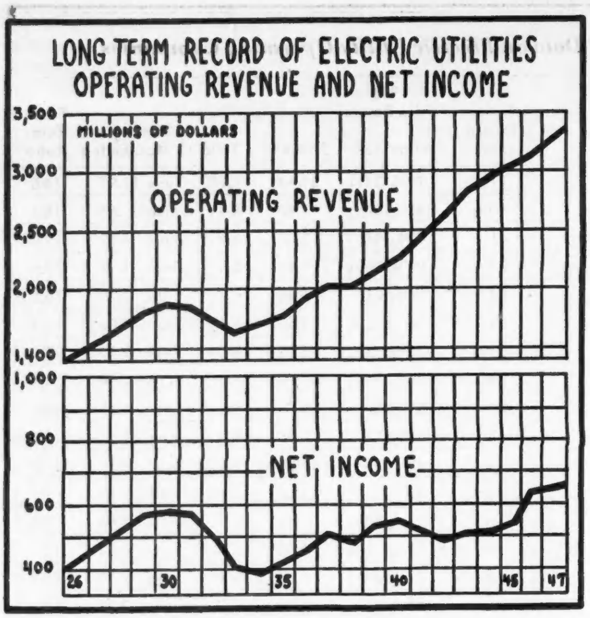
Actually, the program has not worked out as favorably as this. A considerable amount of construction has been financed through temporary bank loans. The industry also sold a much larger proportion of bonds, and considerably less preferred and common stock, than anticipated.

Technical difficulties were encountered with preferred stock offerings. A large proportion of past issues had been sold to insurance companies. So long as these institutions had surplus funds for investment, and new issues were for refunding purposes, they had been willing to pay fancy prices. (Some utilities refunded old preferred stocks with new issues bearing dividend rates as low as $3.25).

But about two years ago insurance companies found other uses for their surplus funds and began to look askance at utility preferred stocks issues. They decided that these issues would prove quite vulnerable to any rise in interest rates (which assumption proved quite correct when the "peg" on long-term Government bonds was reduced about a year ago). Leading institutions decided that they wanted protection against these price declines by the use of sinking funds, or by arrangements for permissive amortization. While some utilities finally acceded to the request for sinking funds, preferred stock financing remained under a heavy cloud from that time on.

Competitive Bidding vs. Negotiated Deals

Another serious difficulty was Rule U-50 of the Securities and Exchange Commission, which required competitive bidding for new utility issues. This worked satisfactorily with bond issues, but with the unsettled market for preferred and common stocks, investment bankers preferred negotiated deals (with a single group) to the competitive bidding method. On some competitive issues no bids



at all were made and in other cases postponements were necessary. The SEC began to permit negotiated bidding in some cases, but the utilities had to ask permission (and prove their case). Also, Otis & Co., proponents of competitive biddings, have sought to compel the SEC to adhere to Rule U-50, which has added to the confusion.

Stock Offerings Handicapped by Market Conditions

Common stock offerings have also been handicapped by general market conditions, and by the competition from occasional sales of portfolio holdings by holding companies. As the result, only about 14 per cent of all financing by utility companies is in the form of preferred and common stocks. About 86 per cent consists of mortgage bonds and debentures—but in some cases the latter are convertible into common stock.

About fifteen convertible debentures and preferred stocks have been issued by the utility companies in the past two years, and several issues are now pending. Detroit Edison recently announced the sale of $47 million 10-year debenture 3s (the rate has been raised from 2.80 per cent) which will be convertible at 20 beginning December 1, 1950. With the stock selling slightly above 20, the conversion privilege is obviously attractive despite the two-year waiting period. Peoples Gas of Chicago recently issued $16,400,000 convertible 3s due 1963 to stockholders, convertible initially into stock at 100 (the stock is around 93-95). The issue was underwritten by Halsey, Stuart & Co., who offered to pay the company $1,000 for the right to buy at 100 any debentures not subscribed by common stockholders.

Novel Features

Most of the recent common stock offerings made by utilities have been in the form of subscription rights, and some of these had novel features. Southwestern Public Service and several other companies have permitted "over-subscriptions" in addition to the exercise of rights, thus assuring sale of the whole issue. Columbia Gas in its recent successful offering enlisted the services of a nation-wide group of dealers, paying them a commission for soliciting subscriptions. Virginia Electric & Power is currently planning to issue common stock to its stockholders, giving them the privilege of paying in three equal installments up to next June.

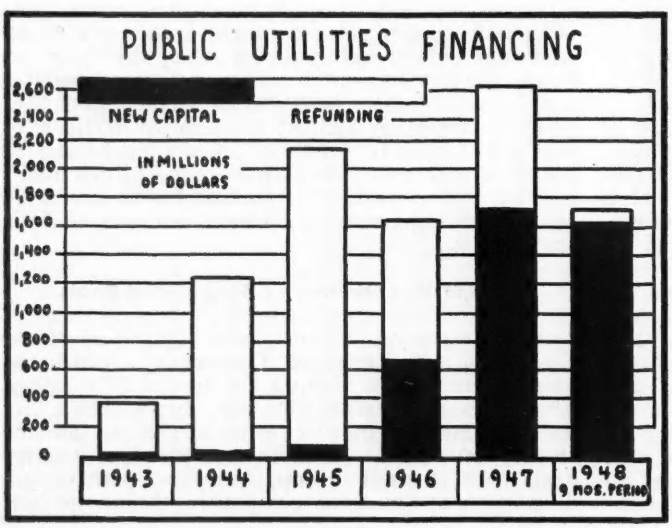
There is only about one trick which the utilities have not yet taken out of the 1929 bag—sale of stock to customers—and for some reason none of them seem anxious to re-employ this method, which was successfully used for the sale of a billion or so of securities in 1924-33. By offering convertible bonds, convertible preferred stocks or common stocks to their own stockholders, the utilities are doing their best to avoid straight public offerings, which the bankers are not very anxious to handle under present conditions.

To illustrate the difficulties with straight offerings—Standard Gas & Electric recently proposed to sell 400,000 shares of Oklahoma Gas & Electric. They sought to obtain a negotiated deal, to which the SEC seemed agreeable. However (apparently because the house which was undertaking the sale reported a disappointing response), Standard reduced the size of the issue to 250,000 shares and made the deal competitive.

Other Offerings

The stock was offered at $34.50 per share October 21 by the successful bidder and part of the issue was sold. The syndicate was dissolved about November 8, and the price broke to around 30, reflecting the sharp post-election slump in the market. Despite this showing, Commonwealth & Southern is proceeding with plans to sell 675,000 shares of Southern Indiana Gas & Electric; but Electric Bond & Share has apparently deferred its offering of Carolina P. & L. Stock.

Will the utilities have to slow up their construction program if current market conditions continue? Not necessarily, since many of them can issue bonds instead of stock without raising their debt ratios too high. Moreover, (*Please turn to page* 202)



Companies . . . . . with LARGE EARNINGS and Outstanding Prospects

SELECTED BY OUR STAFF

The general disregard of good news as an influence upon share prices during the postwar boom attests to extreme caution by investors in eyeing the road ahead. Despite continuously built up evidence for almost three years past of dynamic and unprecedented progress by many of our strongest corporations, fear of a coming "bust" period has tempered stock market enthusiasm. Indeed, consistent improvement in earnings often seems to have been viewed as confirmation of suspicions that "bad times" must be right around the corner and that share prices have inadequately discounted approaching troubles.

While such ultra-conservative appraisals of our economic future tend to bulwark the fundamental position of the stock market if some kind of a recession materializes later on, the broad acceptance of cautious policies has undeservedly held the prices of certain shares at levels inconsistent with accomplished facts as well as clearly indicated potentials for several years to come, in our opinion. In other words, cynicism over lush earnings has failed to recognize the causes for their existence in numerous cases and the soundness of hopes for their relative permanence during the intermediate term. In studying the situation, our staff has selected four concerns that appear to qualify in this category, after making liberal allowances for a possible levelling off or moderate decline in their profit trends. On following pages we present a brief analysis and statistical picture of the four companies selected.

As a basis for our selections we have picked a few industries that have surged ahead impressively in postwar, but as yet have been unable to match output with demand. Looking ahead in each case, substantial sums spent for expansion and modernization now promise to bear fruit through increased production, the maintenance of high level sales and very satisfactory earnings. Between domestic and foreign demands, there is every indication that current heavy backlogs will warrant capacity operations for an extended period. Leading concerns in these industries have prospered greatly for several years and by plowing back substantial earnings have enhanced their operational and financial base impressively. In appraising stock values, this factor is often overlooked; the cushion it provides for leaner times is interesting to examine.

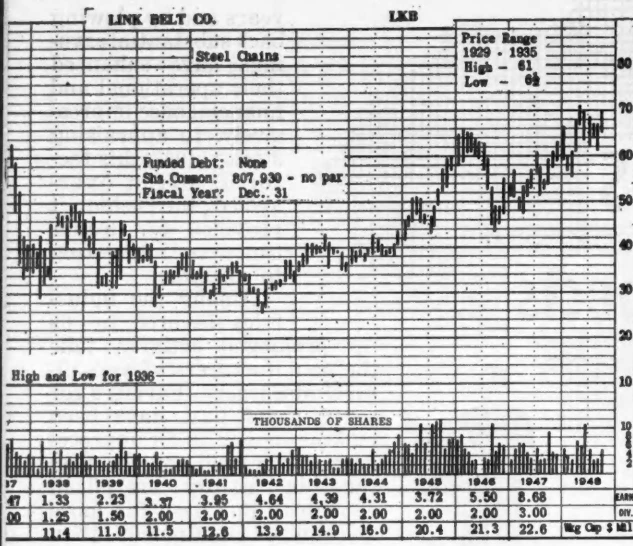
Among the industries favored by us for prolonged activity, take the manufacturers of agricultural machinery. Farmers for seven years past have been making money at an unprecedented rate and for the first time in history are flush enough to purchase far more mechanized equipment than manufacturers can deliver for several years to come. Migration of farm labor to the big centers is forcing dependence upon powered machines as never before, and the farmers have learned to their pleasure that investment in machinery brings liberal rewards. Continuance of price supports, now strongly indicated, signals continued high farm income and greatly strengthens potentials for the farm equipment industry.

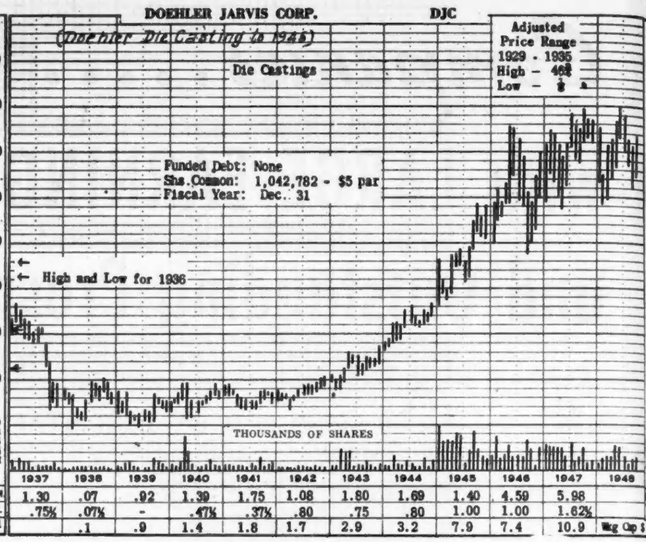
In like manner the record activities of machinery manufacturers specializing in conveying, excavating, power transmission and similar equipment show little evidence of slowing down for quite a while. Volume of this industry has increased almost spectacularly in postwar, to the cumulative benefit of its stronger components. Some of these concerns face an extended period where demand for their products from almost every industry should sustain operations at a capacity level. As steel supplies become more ample and expanded facilities permit higher output, their earnings should reflect the advantage of rapid turnover and steady mass production. What further brightens the outlook for this industry is that if any serious recession occurs, a resurgence of demand for equipment needed for public building and road construction will relieve the impact.

Large Volume in Paper Containers

The broadly expanding demand for paper bags and containers during good times and bad alike for decades past has reached peak proportions in postwar. The relatively low cost, increased strength and improved appearance of these products has entrenched them firmly in popular favor, while the speed with which they must be replaced lends great stability to the operations of their producers. Experienced and well integrated manufacturers in this field have an enviable record that seems unlikely to become less favorable.

For our fourth industry we have picked the manufacture of die castings, parts, plumbing fixtures and hardware. A long line of industries supplying consumer durable goods need quantities of these items in producing their own (*Please turn to page* 199)





LINK BELT COMPANY

BUSINESS: Production of conveyor and drive chains, elevating, crushing, conveying and screening machinery, cranes, draglines and power shovels, ball bearings, power transmission equipment and variable speed controls provides broad diversification for Link Belt Co.

OUTLOOK: As long as the present industrial boom lasts, demand for the company's numerous products should continue at record levels. It would be hard to name an industry that does not patronize Link Belt rather frequently. The efficiency and cost savings characteristic of the equipment provided have long been established. While the business is sensitive to cyclical influences, the record shows that Link Belt has recovered from depressive periods more rapidly than most machinery manufacturers, thus lending a measure of stability to its long term operations. In the course of a decade the company's volume has expanded more than four-fold, amounting to $87.3 million in 1947 and topping an annual rate of $100 million during the first half of 1948. Despite impressive growth, no creation of funded debt has been necessary and in 1945 all outstanding preferred stock was retired. Hence the 807,930 shares of common outstanding represent a simple capital structure. Following the uptrend in sales, net earnings have advanced from $1.33 per share in 1938 to an all-time high of $8.68 in 1947, with $8.81 per share reported for the first nine months of 1948.

DIVIDEND ACTION: A consistently strong financial status has enabled Link Belt to pay dividends regularly for 42 years past, despite some deficits incurred in the early 1930s. During the current year, a 1947 year-end extra of $1 was paid in January, along with two quarterly payments of 75 cents per share and a lift to $1 in the third quarter, for a total of $3.50 paid thus far.

MARKET ACTION: Recent price—63½. The range for 1948 has been high—70¼, low—55¼.

COMPARATIVE BALANCE SHEET ITEMS

	Dec. 31, 1940	June 30, 1947 (000 omitted)	Change
ASSETS			
Cash	$ 3,140	$12,709	+$ 9,569
Marketable Securities	1,546	3,261	+ 1,715
Receivables, net	5,197	9,851	+ 4,654
Inventories	5,696	15,058	+ 9,362
Other Current Assets	11	51	+ 40
TOTAL CURRENT ASSETS	15,590	40,930	+ 25,340
Plant and Equipment	16,733	24,626	+ 7,893
Less Depreciation	8,508	9,908	+ 1,400
Net Property	8,225	14,718	+ 6,493
Other Assets	583	614	+ 31
TOTAL ASSETS	$24,398	$56,262	+$31,864
LIABILITIES			
Accounts Payable	$ 1,879	$ 8,362	+$ 6,483
Reserve for Taxes	1,348	5,529	+ 4,181
Other Current Liabilities	898	1,509	+ 611
TOTAL CURRENT LIABILITIES	4,125	15,400	+ 11,275
Capital	13,871	15,544	+ 1,673
Surplus	6,268	25,412	+ 19,144
TOTAL LIABILITIES	$24,398	$56,262	+$31,864
WORKING CAPITAL	$11,465	$25,530	+$14,065
CURRENT RATIO	3.8	2.7	— 1.1

DOEHLER-JARVIS CORPORATION

BUSINESS: Company was formed in 1944 as a consolidation of Doehler Die Casting Company and W. B. Jarvis Company, two old established specialists in their field. Plants are owned in New York, Pennsylvania, Ohio, Illinois and Michigan.

OUTLOOK: Manufacturers of automobiles, refrigerators, washing machines, radios, plumbing fixtures, electrical appliances and similar durables find a highly dependable source of supply for non-ferrous metal castings in Doehler-Jarvis. The company is in a position to supply items accurately made and plated, ranging in size from minute items up to 40 pounds. Demand for these products in postwar has been so heavy that the company has spent some $6 million for expansion and modernization of its facilities. Both concerns prior to the consolidation had experienced marked growth and after combination, sales mounted steadily to a record height of $64.3 million in 1947, expanding further to an annual rate of $74 million in the current first half year. Backlog orders at midyear pointed to capacity operations for the balance of the year. Profit margins on expanding sales have been wide enough to produce a steady rise in earnings. In fact the latter have proved ample to finance the substantial postwar expansion program, leaving the common stock free from senior obligations. Net earnings were $4.59 per share in 1946 and $5.98 in 1947, sharply rising to $4.13 for the first half of the current year.

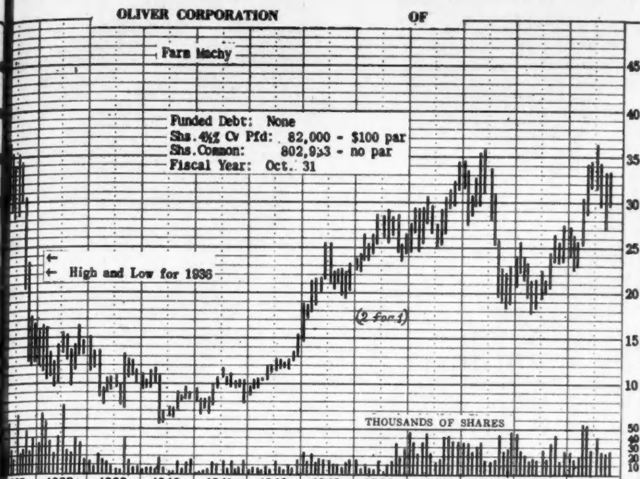
DIVIDEND ACTION: Variable but fairly regular dividends were paid by the two predecessor concerns and since 1945 the annual rate increased from $1 per share to $1.62½ in 1947. In the third quarter of 1948 the rate was lifted to 50 cents per share quarterly from 37½ cents paid previously and a year-end extra seems probable.

MARKET ACTION: Recent price—35, compared with a 1948 range of high—40, low—29.

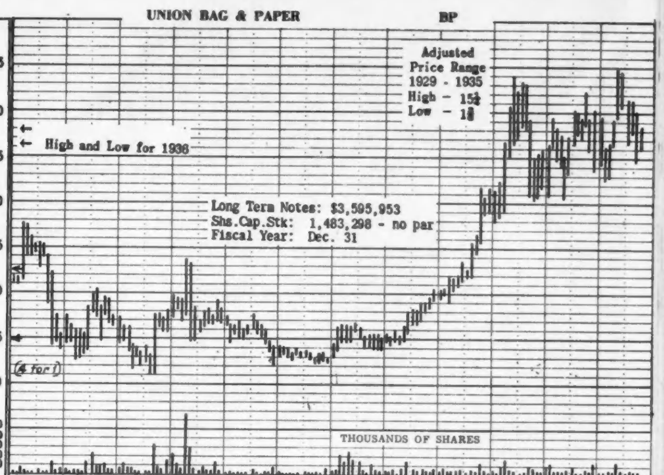
COMPARATIVE BALANCE SHEET ITEMS

	June 30, 1945	Dec. 31, 1947 (000 omitted)	Change
ASSETS			
Cash	$ 4,036	$ 6,033	+$ 1,997
Marketable Securities	1,377	4	— 1,373
Receivables, net	3,530	5,575	+ 2,045
Inventories	2,312	4,583	+ 2,271
Other Current Assets	464	....	— 464
TOTAL CURRENT ASSETS	11,719	16,195	+ 4,476
Plant and Equipment	8,044	12,463	+ 4,419
Less Depreciation	4,142	3,114	— 1,028
Net Property	3,902	9,349	+ 5,447
Other Assets	449	528	+ 79
TOTAL ASSETS	$16,070	$26,072	+$10,002
LIABILITIES			
Accounts Payable	$ 1,646	$ 2,561	+$ 915
Reserve for Taxes	5,539(a)	4,883(a)	— 656
Other Current Liabilities	2,870	2,655	— 215
TOTAL CURRENT LIABILITIES	4,516	5,216	+ 700
Reserves	875	1,800	+ 925
Capital	5,248	5,248	....
Surplus	5,458	13,835	+ 8,377
TOTAL LIABILITIES	$16,070	$26,072	+$10,002
WORKING CAPITAL	$ 7,203	$10,979	+$ 3,776
CURRENT RATIO	2.6	2.9	+ .3

(a)—U. S. Tax Notes, not included in current liabilities.



	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948
EARN.	.22	.09	.64	1.28	2.47	2.44	2.63	2.64	1.63	2.04	4.61	
DIV.	-	-	-	-	.50	.50	1.00	1.50	1.00	.50	1.00	
Wkg Cap $ Mil		11.5	14.7	15.4	16.6	20.1	21.3	30.4	30.8	28.3	27.2	



	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948
EARN.	1.32	.86	.76	1.68	1.70	1.50	.83	1.25	1.30	4.13	7.93	
DIV.	.50	.12½	-	1.00	1.00	.80	.30	.75	.85	1.30	3.00	
Wkg Cap $ Mil		2.2	4.1	5.1	5.1	4.7	5.7	6.9	7.3	8.4	14.7	

OLIVER CORPORATION

BUSINESS: Company manufactures a broad line of farm equipment, including agricultural and industrial tractors of various types, harvesting and threshing machines, seeders, binders, balers and tillage tools, as well as wagons and trucks.

OUTLOOK: Record high farm income and scarcity of labor have sustained a demand for mechanical equipment above capacity limits. The long established reputation of Oliver products has brought a full share of this large business to the company, and these conditions are likely to endure in the foreseeable future. Back in 1938, volume was a rather modest $18.7 million but year by year expanded to $73.7 million in fiscal 1947 ended October 31. For nine months of the 1948 fiscal year, volume exceeded $73 million and the management predicted sales would top $100 million for the full period. Oliver maintains some 40 branches throughout the United States to sell and service its customers, and exports to many foreign countries. The company's postwar modernization and expansion program has been virtually completed, involving outlays of about $23 million. Sale of 82,000 shares of prefered a few years ago, a long term bank credit of $8 million, along with retained earnings, helped to finance this sizable program, yet working capital, $27 million at the end of fiscal 1947, remained satisfactory. Net earnings since 1940 have averaged about $2.50 per share, with $4.61 reported in 1947. $6.04 per share was earned in nine months of fiscal 1948.

DIVIDEND ACTION: Since 1941 dividends have been paid regularly, though at variable rates. In 1947, $1 per share was distributed. Thus far in 1948, $3 have been declared, including a special of 50 cents payable in June, an extra of 25 cents in September, and and another 50 cent extra payable in December.

MARKET ACTION: Recent price—30⅛, compared with a 1948 range of high—36⅜, low—22⅝.

COMPARATIVE BALANCE SHEET ITEMS

ASSETS	Dec. 31, 1940	Oct. 31, 1947 (000 omitted)	Change
Cash	$ 2,942	$ 5,140	+$ 2,198
Marketable Securities	....	900	+ 900
Receivables, net	4,550	7,390	+ 2,840
Inventories	10,265	26,308	+ 16,043
TOTAL CURRENT ASSETS	17,757	39,738	+ 21,981
Plant and Equipment	16,262	32,072	+ 15,810
Less Depreciation	9,486	16,082	+ 6,596
Net Property	6,776	15,990	+ 9,214
Other Assets	1,098	603	+ 495
TOTAL ASSETS	$25,631	$56,331	+$30,700
LIABILITIES			
Notes Payable	$ 375	....	—$ 375
Accounts Payable	820	$ 7,345	+ 6,525
Reserve for Taxes	317	4,328	+ 4,011
Other Current Liabilities	798	804	+ 6
TOTAL CURRENT LIABILITIES	2,310	12,477	+ 10,167
Long Term Debt	2,625		— 2,625
Reserves	....	2,700	+ 2,700
Capital	13,743	25,604	+ 11,861
Surplus	6,948	16,963	+ 10,015
TOTAL LIABILITIES	$25,631	$56,331	+$30,700
WORKING CAPITAL	$15,447	$27,261	+$11,814
CURRENT RATIO	7.7	3.2	— 4.5

UNION BAG & PAPER CORPORATION

BUSINESS: Company is the largest producer of paper bags, as well as an important supplier of kraft container board, wrapping paper, multi-wall sacks, waterproof papers and similar items. 500,000 acres of woodland owned or leased provide an ample source of pulp.

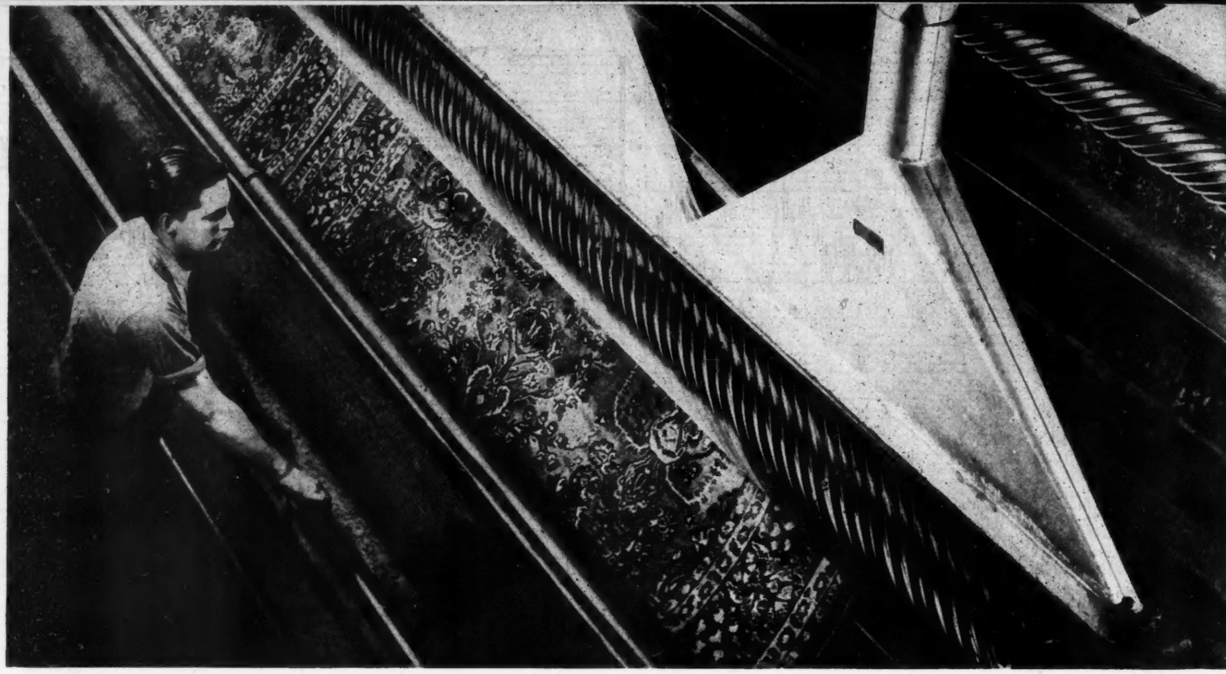
OUTLOOK: For the last sixteen years in a row, volume of this leading paper bag manufacturer has established new high records annually. To judge from results thus far in the current year, a new peak of around $75 million may be attained. Compared with $6.4 million in 1932, this attests to vigorous growth as improved quality and relatively low prices for paper containers won increasing popularity among users. The business has an inherent advantage in the rapid expendability of its products, for this reason enhancing replacement potentials on an ever broadening scale. While the management cautions that the present sellers' market shows signs of tapering off soon, company's strong trade position should sustain sales on a far higher level than in prewar. Approximately 1.48 million shares of common stock and about $3.5 million notes provide a rather simple capital structure. At the end of 1947, working capital of $14.7 million was of record proportions. During the last five years, net earnings have steadily improved, reaching $7.93 per share in 1947 and reported as $7.11 per share for the nine months ended September 30, 1948.

DIVIDEND ACTION: Except for omissions in a few years of extreme depression, Union Bag and Paper has uniformly paid dividends and the trend has been upward for the last five years. In 1947, including extras, $3 per share was paid and thus far in 1948, $2.25 has been distributed.

MARKET ACTION: Recent price—31⅝, compared with a 1948 range of high—39⅞, low 27⅝.

COMPARATIVE BALANCE SHEET ITEMS

ASSETS	December 31, 1940	1947 (000 omitted)	Change
Cash	$ 1,870	$ 4,383	+$ 2,513
Marketable Securities	999	4,654	+ 3,655
Receivables, net	2,216	3,939	+ 1,723
Inventories	2,560	5,710	+ 3,150
TOTAL CURRENT ASSETS	7,645	18,686	+ 1,041
Plant and Equipment	20,659	....	....
Less Depreciation	7,575	....	....
Net Property	13,084	19,059	+ 5,975
Other Assets	1,725	4,578	+ 2,853
TOTAL ASSETS	$22,454	$42,323	+$19,869
LIABILITIES			
Notes Payable	$ 113	$ 444	+$ 331
Accounts Payable	477	1,705	+ 1,228
Reserve for Taxes	1,562	7,546	+ 5,984
Other Current Liabilities	390	1,792	+ 1,402
TOTAL CURRENT LIABILITIES	2,542	3,942	+ 1,400
Long Term Debt	4,686	3,595	— 1,091
Reserves	252	271	+ 19
Capital	9,543	11,125	+ 1,582
Surplus	5,430	23,190	+ 17,760
TOTAL LIABILITIES	$22,454	$42,323	+$19,869
WORKING CAPITAL	$ 5,103	$14,744	+$ 9,641
CURRENT RATIO	3.0	4.7	+ 1.7



Photos by Bigelow-Sanford

Bigelow-Sanford vs. Mohawk Carpet

By H. S. COFFIN

The century-old carpet industry, in common with many others producing consumer goods, is experiencing unprecedented postwar prosperity. Since competition in this field is restricted to a handful of old concerns that account for about 70% of total sales, it is interesting to examine the record and current status of two outstanding units from an operating viewpoint, as well as to compare potentials in the making for their respective shareholders. For this reason we have selected Bigelow-Sanford Carpet Co., Inc. and Mohawk Carpet Mills, Inc.

Manufacturers of soft floor coverings this year seem likely to produce about 86 million square yards compared with 75 million in 1947, with a line of buyers anxious for still larger quantities if they could be turned out. Practically all deliveries are still on an allocation basis, as has been the case ever since the end of the war. Carpets of every description took a bad beating during war years when looms had to be converted for the production of duck and other military essentials and carpet manufacture was reduced to a minimum. Hence pent-up demand from home owners, hotels and office buildings swelled to record proportions, while a substantial increase in new families in postwar, along with stepped-up building activities, further tended to accentuate the strain upon existing capacity. Under the circumstances, although carpet prices have been upped only about 42% since 1939, it is small wonder that the industry's sales may top $400 million in 1948, a level never previously reached. In line with prospects, net earnings of the leading concerns are also approaching peak proportions.

Looking ahead, it seems clear that the current sellers' market cannot endure indefinitely, although over the longer term optimists predict demand will absorb much increased output. So long as the national income remains high, though, sales should continue to be very satisfactory, for soft floor coverings are relatively expendable and for decades past, consumers have allotted a steady portion of their budgetary sums to replacements and new purchases. For this reason, despite cyclical swings in volume and profits, the industry as a whole has established a good record for average performance by earning about 10% on their invested capital over a long period of years.

Basic Industry Characteristics

The existence of a relatively small number of competitors is explained by heavy initial capital expense, complexity of manufacturing operations, the need for highly trained workers and engineering talent, along with experienced managements. Besides these determinant factors, the overall capacity of the industry for a long time past has been ample to meet demand and at times was rather more than sufficient. The competition from hard floor coverings, including linoleums and fancy hardwoods, has created problems, although consumer preferences and special needs have left room for consistent growth of all types of floor coverings as our population increased. Back in the old days, early in the century, when seamed carpets were all the vogue,

the industry actually had facilities that turned out more than 80 million yards annually, comparable to present day record production, but a shift by most consumers to seamless rugs of various dimension cut annual output severely. This was especially true in the 1930s, when disposable income was relatively limited.

Postwar economic conditions have given the carpet makers a rare opportunity to operate at capacity, at the same time working towards stabilization of future operations. Production of wall to wall coverings of beautiful design and coloring has met with exceedingly popular response. Because this development spells increased yardage sales, the industry has been alert to foster it by intensive efforts to educate home owners as to the value of harmonious color effects in every room. In this direction, aid has probably come from the high construction cost of new dwellings, often resulting in the use of cold and poor looking floors. A lovely, warm carpet extending from wall to wall could completely offset these undesirable features and apparently its current high cost has been deemed warranted by an increasing mass of consumers. In no small manner this undoubtedly accounts for estimates by the Federal Reserve Bank of New York that carpet sales in June for its district were 25% higher than a year earlier, and that retail inventories rose 27% as distributors broadened their lines confidently in expectation of well sustained demand.

Reconversion Problems

After the war, the reconversion problems of the carpet industry were severe, entailing considerable time and expense before looms could be reconverted from production of duck and military blankets to normal output. But far-sighted managements seized this opportunity to modernize their facilities and to install new looms that could produce more carpets of 12, 15 and 18 foot width, or even larger. Since these rolls can be cut to any desired length and most rooms are of standard dimensions, it is a simple matter for a distributor to meet customer needs for "Broadloom" seamless rugs and carpets to cover as much area as may be desired.

While the industry's plant expansion programs have been very limited, many millions have been spent to install the most up-to-date machinery all along the line, from automatic wool sorters, dyers and carders to high speed looms capable of turning out wide dimension carpets at speeds up to 30% faster than formerly. Some of this equipment costs as much as $250,000 per unit. but potential efficiency and cost savings render the outlay well worth while. In order to finance this modernization program, most of the large carpet manufacturers have raised additional working capital through sale of stock or term borrowing.

Inventory turnover has been so rapid since the end of the war that stocks now are far below normal in relation to sales; but when it becomes possible to stock branch warehouses adequately, inventories will have to be enlarged and it looks as if additional financing in some instances will then become desirable.

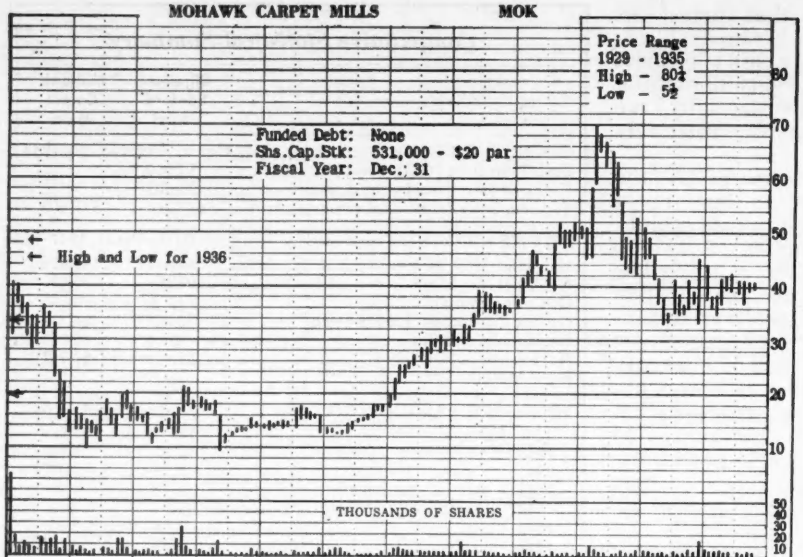
Another reason why heavier inventories will have to be carried is that this industry has to import its wools and jute from the four corners of the world, and under current unsettled conditions this is no easy matter. Hence the urge to buy when oppor-

Comparative Statistical Summary*

	Bigelow-Sanford Carpet	Mohawk Carpet Mills
CAPITALIZATION: As of	Oct. 2, 1948	June 30, 1948
Long Term Debt (000 omitted)	$5,000	......
Preferred Stock (number of shares)	26,403	......
Common Stock (number of shares)	627,218	531,000
INCOME ACCOUNT: Year Ended	December 31, 1947	
Net Sales (000 omitted)	$62,872	$46,879
Net Sales Per Share	$100.10	$88.00
Operating Margin	12.1%	10.9%
Pre-Tax Net Income (000 omitted)	$6,001	$4,734
Pre-Tax Net Margin	9.6%	10.1%
Net Income (000 omitted)	$3,446	$2,734
Profit Margin	5.5%	5.8%
LONG TERM EARNINGS RECORD		
1948 (Interim)	$5.77c	$5.05e
1947	5.32	5.15
1946	1.77	4.77
1945	1.19	1.91
1944	1.41	2.33
1943	1.24	2.40
1942	1.76	3.03
1941	3.00	3.62
1940	3.03	2.91
1939	3.17	3.29
1938	def. 2.63	def. 2.72
10-Year Average Earnings, 1938-47	$1.92	$2.67
10-Year Average Dividends, 1938-47	$1.10	$1.72
BALANCE SHEET (000 omitted): As of	Oct. 2, 1948	June 30, 1948
Cash and Securities	$3,671	$5,086
Cash and Securities as % of Current Assets	9.8%	22.0%
Inventories	$24,520	$13,957
Inventories as % of Current Assets	65.8%	60.6%
Total Current Assets	$37,413	$23,035
Total Current Liabilities	$10,534	$6,647
Net Working Capital	$26,879	$16,388
Current Ratio	3.6	3.5
Fixed Assets, Net	$7,921	$6,471
Total Assets	$47,518	$30,654
Book Value Per Share	$40.00	$43.76
Net Current Asset Value Per Share	$36.50	$30.60
Recent Price of Common	$30	$38
1948 Dividend	$2.70	$3.00b
Dividend Yield	9.0%	7.9%
Price-Earnings Ratio (to 1947 Earnings)	5.6	7.4

*—Figures adjusted for stock-splits
b—Includes year-end extra.
c—9 mos. ended October 2.
e—9 mos. September 30.

Air view of Bigelow Sanford's huge plant at Amsterdam, N. Y.



	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	
	2.27	d 2.72	3.29	2.91	3.62	3.03	2.40	2.33	1.91	4.76	5.15		EARN
	1.70	.25	.75	1.25	2.00	2.00	2.00	2.00	2.00	2.00	2.00		DIV.
		8.2	10.6	11.8	12.8	13.5	14.1	14.6	14.8	15.5	15.9		Wkg Cap $ Mil

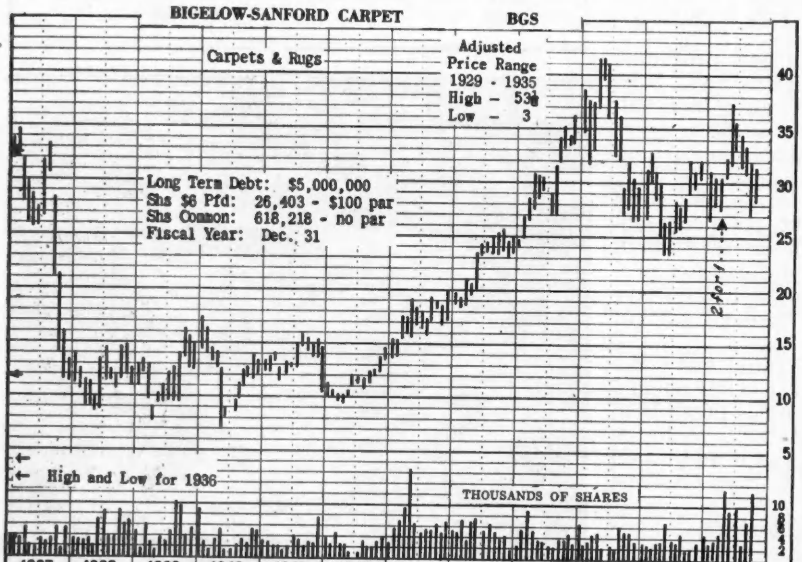
tunity offers is enhanced. Argentina is a major supply source for wools, but Mongolia, India, Egypt, Syria, Iraq, Spain and many other distant countries contribute to the over-all supply. With output of carpets now of peak proportions, stable operations can be assured only by piling up raw materials from all these remote sources, whence deliveries require many weeks to complete, where exchange values fluctuate rapidly and political factors sometimes enter the picture.

This brief resume of conditions in the carpet industry will provide a background in discussing the two concerns under review. By coincidence the main plants of both Bigelow-Sanford and Mohawk Carpet Mills are located in Amsterdam, N. Y., though the former concern also has large and modern facilities in Thompsonville, Conn., and a relatively small yarn mill in Bristol, Va. Bigelow-Sanford is the dominant unit in the carpet and rug industry. Its business originated back in 1825 and both yardage and annual sales now account for about 25% of the industry total. In point of physical assets, this concern is outranked by Alexander Smith & Sons, but the latter produces linoleum as well as soft floor coverings.

Wide Range of Output

Mohawk Carpet Mills concentrates production upon woven goods but also operates a foundry and machine shops to make some of its own looms and equipment. Experience in carpet manufacture dates back to 1886 and volume is about two-thirds that of Bigelow-Sanford.

Bigelow-Sanford manufactures a large assortment of weaves, broadly diversified as to quality and price. Axminster carpets account for the company's largest volume in point of yardage. These coverings have independently inserted tufts, pre-dyed and capable of producing oriental effects when mechanically applied. Company engineers have built and added a number of looms in twelve and fifteen foot widths to meet the heavy demand for wall to wall Axminster carpet. A wide quality range for Axminsters permits offerings of lower priced Clifton and Fervak in this category as well as higher priced Beauvais and Sovereign carpets. Velvet and Jacquard looms of modern construction produce solid color carpets and Wiltons with a width ranging from 27 inches to 18 feet and in the intermediate price brackets. Then last year, Bigelow-Sanford introduced a relatively low priced rug with a wool face on a jute backing and with design printed on giant color presses. The management considers the development of this "Glamorug," retailing at $29.95 for the 9x12 size as of great significance in competing with hard floor coverings. Altogether Bigelow-Sanford is in a strong position to satisfy the requirements of many markets, from hotels and commercial offices to the most humble dwellings.

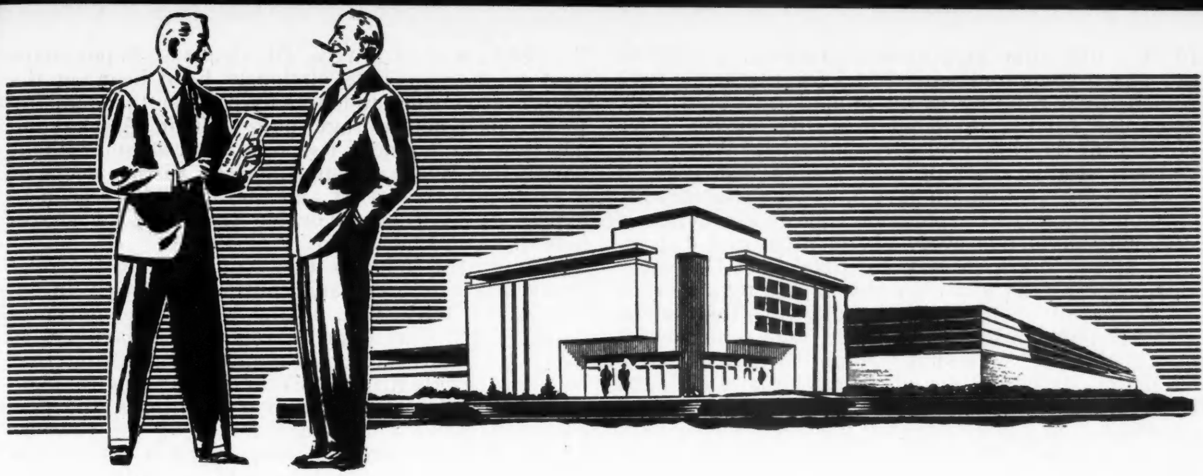


	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	
	.84	d 2.63	3.22	3.05	3.00	1.76	1.24	1.40	1.18	1.76	5.32		EARN
	1.75	-	.50	1.50	2.00	1.00	1.00	1.00	1.00	1.00	2.00		DIV.
		11.2	13.2	14.4	15.5	16.7	17.2	18.2	18.0	23.4	24.8		Wkg Cap $ Mil

Covers Lower Price Range

Mohawk Carpet Mills also produces Axminsters, Wiltons and Velvets, and is the leading manufacturer of Chenilles. To round out a full line, it is making numerous rugs and carpets in the lower price range, as well as going to the other extreme with tapestries. In general, Mohawk goes in for less high priced goods than

(*Please turn to page* 199)



New Candidates for Extra Dividends

By GEORGE W. MATHIS

To judge from numerous very encouraging third quarter earnings reports, investors in many corporations are likely to experience increased dividend liberality. In our October 9th issue we presented a substantial list of concerns that might declare year-end extras, and since then a good many of our selections have come through with such windfalls. Now that more nine months reports have accumulated, we accede to numerous requests for a new list of promising candidates and present them on the appended tabulation.

If peak earnings are a valid base for anticipating more generous treatment of shareholders, the current crop of record gains would be so large as to make selections an easy matter. In scanning all these instances of lush net income, however, hopes must not be raised unduly, because company problems vary widely and action as to extras will hinge upon individual decisions reached behind closed doors. It is ony by weighing accomplished earnings with near term potentials and an understanding of various factors at both the industry and company level, that intelligent estimates of dividend potentials can be formed.

During the current boom, as is well known, the need for additional capital has been augmented by inflationary forces, increasingly heavy inventories and the large sums required to implement expansion and modernization programs. In contrast to normal periods in former years when corporations felt warranted in distributing a major portion of their earnings, postwar experience has impelled the retention of a very substantial percentage in the business. This trend has been intensified on an increasing scale due to the scarcity of new risk capital, often occasioning much disappointment to shareholders hoping for larger dividends.

Though the election results are now known and directors of corporations can assess their potential impact upon the economy and their own affairs, it is premature to guess how their conclusions may affect their dividend policies. The time of year, however, is rapidly approaching when corporate accountants can present statistics covering full year operations. Where record earnings are shown and where the road ahead appears bright, many concerns are sure to decide on higher dividends rates and/or year-end extras either in cash or stock. If pressure for additional working capital exists, stock dividends rather than cash will probably be favored, or a combination of both.

A factor likely to count heavily is progress made in completing expansion and modernization, for the capital needs of many concerns have been lessened as their new plants have reached the stage of actual production with the promise of larger sales and widened profit margins. Attainment of this goal has already led one important concern to declare a year-end extra although nine months' earnings for 1948 were slightly lower than in the same period a year earlier. All said, there are many pros and cons to be considered, aside from earnings reports, in determining year-end dividend policies.

Oil Companies are Good Prospects

Several oil companies have so far increased dividend rates for the final quarter, declared extra cash distributions or capitalized a portion of retained earnings by means of stock dividends. This lends hope that other concerns in this prosperous group will soon fall in line with similar liberality. An overall earnings gain of almost 50% compared with 1947 seems in store for many oil companies in the current year, but vast sums are needed to carry out expansion programs and exploratory work.

In the first two quarters of the current year, Amerada Petroleum Corporation supplemented regular quarterly dividends of 50 cents per share with extras of 25 cents. In the two following periods, the rate was lifted to 75 cents per share but no extras added. If no more dividends are payable in 1948, $3 per share will have been distributed, the same as in 1947. Considering that net earnings of this concern

for the first nine months were reported as $11.50 per share compared with $4.13 for the same 1947 period, thus running at an annual rate of $15.83, room for further dividend liberality shortly after New Year is rather clearly indicated. When this concern studied its full year results last year, it declared an extra on January 5, payable January 30.

Shell Union Oil Corporation follows a practice of declaring dividends every six months, and distributed $1 per share on July 15, 1948. Last December this concern paid $1.50 per share, making a total of $2.25 for all of 1947. In the nine months' period ended September 30, 1948, Shell Union reported net earnings of $6.11 per share, an annual rate of $8.15. To match 1947 total distributions the final dividend for this year would have to be $1.25, but in view of earnings it would appear that the approaching payment could be considerably more generous.

Chesebrough Mfg. — Procter & Gamble

Chesebrough Manufacturing Company, while not a producer or refiner of petroleum and consequently not participating in the spectacular uptrend in earnings of the oil industry, enjoys such stable earnings from its production of petroleum jellies (Vaseline) that it has paid dividends without a break since 1883. For several years past, quarterly dividends have been regularly supplemented by extras, and the company paid 50 cents regular and 25 cents extra during 1948 thus far. While no interim earnings are available, sales by this concern are believed to be holding up well. To equal distibutions for 1947, a year-end extra of $1 per share would have to be forthcoming.

Although Procter & Gamble declared an extra of $1 per share at the end of its fiscal year last June, the strong situation of this concern, both financially and earningswise, might warrant further liberality in the near term. Increased supplies of fats and oils costing only about half of their postwar peak prices have placed the operations of the company on a sounder and more stable basis than formerly. At the end of fiscal 1948, Procter & Gamble not only marked down its heavy inventories to the "lower of cost or market" but additionally set up $14 million of special reserves against possible future declines. After payment of dividends, retention of $32 million from earnings lifted working capital to a peak of $114 million, including more than $30 million cash and government securities. With no need for additional inventory reserves, net per share for the September quarter rose to $2.06 compared with $1.40 a year earlier, a gain of more than 40%. Including the June extra of $1, the company has distributed $3.25 since the beginning of the current calendar year, so that improvement in some form should occasion little surprise.

American Viscose Corporation

American Viscose Corporation, the country's largest manufacturer of rayon yarns, has experienced a sharp uptrend in earnings since the end of the war, with signs that the peak has not yet been reached. As a result of $25 million outlays for expansion and modernization last year and price increases to offset rising wages, sales have tripled over prewar levels and earnings have climbed impressively. For nine months ended September 30, net per share of $11.36 was reported, indicating better than $15 for the full year. Dividends of $3 per share paid to date in 1948 obviously have been on the conservative side, undoubtedly because the company plans construct a huge pulp mill in Alaska and has thus far financed its postwar program without borrowing. But last year American Viscose declared a year-end extra of $1 and there is good reason to expect at least as favorable treatment of shareholders in the final quarter of 1948.

The cement industry now ranks among the relatively few where demand continues strongly in excess of capacity. One of the leading cement producers, Lone Star Cement, reports net earnings of $5.51 per share for nine months, suggesting that full year profits may top $7.25 compared with $6.68 in 1947. Under current active conditions, the new FOB mill pricing method enforced by the Government seems to have had little adverse effect upon this industry. Lone Star's numerous plants, furthermore, are strategically located near important markets, especially in the rapidly growing Southwest, while the company has an additional advantage in operating numerous mills in Latin-America. Since the business is highly mechanized, fully integrated and no important expansion programs are involved, it would seem that the management could afford to distribute a liberal share of earnings to stockholders. No funded debt or senior stock precedes the one class common stock, working capital appears ample and if a general business recession should set in, new demand for public works construction promises to offset any slump in cement sales. Due to these combined factors and distribution of only $2.62 per share to stockholders thus far in 1948, an additional disbursement appears not unlikely. •

U. S. Gypsum

Boom conditions in the construction field have tended to expand earnings of U. S. Gypsum Company at a pace that led to declaration of $1 extra as a supplement to the regular 75 cents per share paid October 1. Total distributions for nine months thus amounted to $3.75, compared with $4 paid during all of 1947. This evidence of more liberal dividend policies, though, seems overly moderate in scanning net earnings for the current year. In the January-September period the company reported net per share of $11.42, an annual rate of better than $15. If actual results could bear out this estimate and no foreseeable diminution of demand for home buildings colors the 1949 horizon, it is possible that the dividend rate may be increased or a year-end special be declared.

The efficient and relatively low priced building materials produced by U. S. Gypsum are in urgent demand all over the country and it looks as if the company's sales might remain at peak levels for several years to come. Outlays of more than $42 million in postwar for expansion and modernization have decidedly increased the company's volume and profit potentials in attempting to meet the large demand. It is rational to suppose that shareholders will benefit through the receipt of a larger share of earnings.

The time seems to be nearing when stockholders of Allis-Chalmers can expect to benefit from some form of dividend improvement. The company's facilities are being operated at capacity, about half of output representing agricultural equipment and the other half heavy electrical machinery. Now that

steel supplies are more ample, and barring further labor troubles, it seems that 1949 would be as prosperous as 1948. To judge from net earnings of $3.58 per share for nine months, Allis-Chalmers this year should earn about $4.80 per share compared with $1.69 in 1947 when operations were hampered by strikes and materials shortages. Dividends of $1.60 per share were paid last year and no change in the 40 cents quarterly rate has been made to date. Unless increased capital needs preclude an improvement, dividends may soon be raised in some manner, perhaps through the medium of a special. Under normal circumstances stockholders would be entitled to a more liberal share of earnings than at the current ratio of 33⅓%.

Kennecott Copper

Kennecott Copper has by no means exhausted potentials for extras by declaring three special dividends to bolster the regular quarterly rate of 25 cents per share during nine months of 1948. Two specials of 50 cents each and a later one of $1.25 per share have brought total dividends thus far in 1948 to $3 compared with $4 paid in full 1947.

Weighed against 1947 earnings of $8.49, last year's payments were very conservative and as net per share in 1948 should easily top $9, the company's dividend policies could comfortably liberalize. Kennecott is basically a low cost producer, and a midyear rise in copper prices should widen profit margins in the second half year conceivably enough to lift net earnings even higher than the $9 per share we mentioned. An impregnable financial position certainly would permit a very generous year-end special dividend by this world-famous mining concern.

Promising Candidates for Year-End Extras

	Dividends Paid 1947	To Date 1948	Earnings Per Share 1947	1948	Recent Price	Price Range 1948
Abbott Laboratories	$3.25	$2.40	$5.46	$4.62 b	$68	70¾-63¾
Adams-Millis	4.00	1.50	6.73	3.36 c	44	46½-42
Allis-Chalmers	1.60	1.20	1.69	3.58 b	31	42⅛-30¼
Alpha Portland Cement	2.00	.75	3.06	3.98 a	28	31½-25¼
Amerada Petroleum	3.00	3.00	9.46	11.50 b	98	121 -83¾
American Chain & Cable	1.40	1.15	3.65	2.52 c	23	27 -18¾
American Cynamid	1.00	1.50	2.96	2.73 b	38	43 -33¼
American News	2.32	2.25	4.57	2.84 b	31	34¼-29
American Radiator & S. S. Corp.	1.00	.75	1.90	1.69 b	15	16⅞-12½
American Stores	1.40	1.75	4.55	2.22 c	23	27 -22⅛
American Viscose	2.00	3.00	8.47	11.36 b	63	71½-46¾
American Woolen	10.00	6.50	15.37	9.99 b	42	56⅞-36½
Arnold Constable	1.25	1.12	2.74	.56 c	15	18½-14
Babcock & Wilcox	3.50	4.00	10.06	7.44 c	59	66¾-45
Barker Bros.	2.62	1.50	5.42	3.69 b	22	28⅞-20½
Bayuk Cigars	1.75	1.12	2.96	1.85 b	18	23½-18⅛
Beatrice Foods	3.50	2.50	6.39	2.98 c	34	43½-31
Beneficial Industrial Loan	1.50	1.27	2.56	1.37 c	21	26⅜-21
Best & Co.	2.50	1.50	4.36	1.93 c	25	30½-23½
Borden Co.	2.55	1.80	4.61	2.10 c	42	44⅝-38
C.I.T. Financial	2.00	2.00	2.03	3.31 b	41	48½-36½
Chesebrough Mfg.	3.25	2.25	4.87	....	57	70 -54
Cities Service	1.50	1.50	10.93	9.65 c	46	66¾-31⅝
Cluett Peabody	3.00	1.50	7.20	7.66 a	32	36⅞-30¼
Crane Co.	2.60	1.20	5.18	5.67 e	31	39¾-29
Doehler-Jarvis	1.62	1.25	5.98	6.10 b	32	40 -29
Eastman-Kodak	1.55	1.65	3.46	2.65 f	42	46⅜-38⅛
Felt & Tarrant	2.00	1.75	2.64	3.24 b	22	24¼-20
Freeport Sulphur	2.50	1.87	3.89	3.55 b	45	47⅝-35¾
Hinde & Dauch Paper	3.50	2.00	5.06	6.71 b	31	37 -28
Holland Furnace	2.00	2.00	4.10	2.58 b	24	29¾-21⅛
Howe Sound	2.00	1.50	3.15	4.00 b	41	47 -33
International Bus. Mach.	3.43	3.00	9.40	8.45 b	148	154½-125½
Jewel Tea	2.40	2.40	5.58	3.36 h	46	48 -39½
Kennecott Copper	4.00	3.00	8.49	4.46 c	55	60⅞-42¼
Lone Star Cement	4.25	2.62	6.68	5.51 b	62	68⅞-57½
Penick & Ford	3.17	1.20	4.52	1.77 b	29	37 -29
Procter & Gamble	5.11	4.00	4.00	2.06 k	65	71⅝-62¼
Pittsburgh Plate Glass	1.70	.75	3.11	2.58 c	33	39½-32¾
Shell Union Oil	2.25	1.00	4.44	6.11 b	37	46¾-28¾
Smith (Alex.) Carpet	2.70	1.70	5.75	5.48 b	34	39½-30⅝
Texas Gulf Sulphur	4.50	3.50	5.64	4.70 b	65	71¼-47
U. S. Gypsum	4.00	3.75	10.00	11.42 b	100	113¾-92½
Union Oil of Calif.	1.10	1.95	3.85	4.88 b	30	38⅞-21½

a—12 mos. ended Sept. 30
b—9 mos.
c—6 mos.
e—12 mos. ended June 30
f—24 weeks ended June 30
h—28 weeks ended July 17
k—Sept. quarter

Hopes for improved dividends are by no means limited to the largest concerns in a given industry. This is well shown by Hinde & Dauch Paper Company, a long established manufacturer of corrugated and solid fiber boxes, mailing envelopes, display stands, shipping materials, etc. For many years the earnings record of this concern has been marked by exceptional stability and dividends have been uninterrupted since 1935. Net income in postwar years has reached progressive new peaks, with every indication that 1948 will top all records.

As a result of $5.06 per share earned in 1947, the directors declared a year-end dividend of $1.50 to supplement previous quarterly dividends of 50 cents each. For nine months of the current year, earnings of $6.71 per share have been reported, indicating that they may reach close to $9 for full 1948. Thus far in the current year, shareholders have received a total of $2 per share only. The company's financial status is so strong, as of December 31, 1947 with current liabilities of $1.6 million covered by cash and securities of $2.4 million and total current assets of $8.2 million, that there seems to be small need for retaining any substantial amount of earnings in the current year. Hence the prospects for a year-end extra could hardly seem brighter.

Cluett, Peabody — Crane Co.

Cluett Peabody & Company, leading manufacturer of shirts and collars, passed along to its stockholders hardly more than 40% of net earnings last year and payments to date in 1948 have been on an even more conservative basis. At the end of 1947 the directors of this concern declared a dividend of $1.50 per share to bring the total for the year to $3. In order to equal this mark in 1948, the same action must be taken in the current final quarter. Since for 12 months ended September 30, net earnings were reported as $7.66 (*Please turn to page* 202)

FOR

PROFIT

AND

INCOME

Guessing

At some point, of course, the market will decide that it has over-discounted fears of higher corporate taxes. It could possibly do so even between the time this column is written and the time you read it, for when the industrial average moves with anything like the speed shown so far in registering dismay over the outcome of the election, it can get down there in a hurry. But the best that this column can see, at least for some time to come, is trading-range rallies, mainly of technical character. The basis for long-term buying of common stocks — buying for retention periods of six months or more—has been weakened. Until the program of the Administration is detailed, especially on taxes, investment calculations cannot be made with much assurance; and the uncertainty might even continue until it is indicated what Congress will do with the program.

Questions

Total corporate profits are now so good, and so largely in excess of dividends, that a moderate boost in corporation taxes might do little harm. It might leave the average stock still "statistically cheap," as has been so for the last two years or more. Nevertheless, nobody can foresee either the scope of the increase which the President is expected to ask, or its character. It might be a straight boost in the corporate tax rate, now 38%. It might be an excess-profits tax. If the latter, the exemption might be based on percentage return on invested capital or average earnings of selected prior years, or either at option of the corporation. Just which it is can make a world of difference in appraising individual stocks.

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1948	1947
Allis-Chalmers	9 mos. Sept. 30	$3.58	$ .72
Bristol-Myers	9 mos. Sept. 30	2.35	2.05
Distillers Corp.-Seagrams	Year July 31	6.24	4.88
Hershey Chocolate	9 mos. Sept. 30	3.20	2.46
Kimberly-Clark Corp.	9 mos. Sept. 30	3.91	3.04
Maytag Co.	9 mos. Sept. 30	2.97	2.29
Motor Wheel	9 mos. Sept. 30	2.60	2.00
Munsingwear, Inc.	9 mos. Sept. 30	1.96	1.10
Southern Natural Gas	12 mos. Sept. 30	3.04	2.52
Youngstown Sheet & Tube	Sept. 30 quar.	4.36	2.88

Trend

From time to time this column has expressed some distrust, at least in a long term sense, of situations in which an important portion of the earnings of American corporations derive from Latin-American properties. We have cited the vital importance of Creole Petroleum, in Venezuela, to Standard Oil (New Jersey). Now we see by the newspapers that Venezuela has boosted the tax again, with the objective of getting half of the profit on oil produced by foreign companies. The tax has been changed several times during the last five years, although more in detail than in purpose. Perhaps the division of profit is a fair one. That is not our point. The point is: Who can guess what the character of the government of Venezuela, and the tax, may be five years hence?

Dividends

Where year-end dividends have not yet been acted on, the outcome of the election no doubt will cause managements here and there to be less generous than they otherwise would have been because of the new uncertainties now injected into the 1949 picture. However, the over-all effect will probably be quite moderate, partly because so many year-end extras have already been voted. There were 142 companies which voted extras in October, against 137 in the same month of last

year. There was no apparent falling off in such declarations for the first week or so after the election, but the time so far has been too short to provide much of a test.

Inflation

The inflationary implications of the election could easily be exaggerated, and certainly remain to be proven. Where supply-demand factors are deflationary, as they now are in some soft goods, it seems very improbable that Administration policy will, or can, put them back on the inflationary side. Where inflationary pressures are still strong, you have to be on the lookout for price controls, if not even the possibility of an attempted roll-back of prices. Perhaps the outstanding example is non-ferrous metals. Shortly before the election zinc was boosted another half-cent a pound, lead two cents to a record 21½ cents a pound. It is probable that copper was on the verge of following suit. Maybe it will still do so, but that would surprise this column. Why wave a red flag at an Administration which will certainly demand "stand-by" price control powers from Congress? Good copper stocks, like Kennecott and Phelps Dodge, are priced so low on earnings and dividends that we would be far more interested in watching for a buying opportunity than in doing any selling in a weak market. It is our strong hunch that present dividends, which offer almost fantastically large yields, will be earned and paid under any price controls we are likely to get.

Year-End Market

The "average" market trend has been downward over the years from early November to some time in December, followed by the traditional year-end rally into at least the first fortnight or so of January. We are getting the customary set-back all right, but not for the customary reason of tax selling. The year-end rally has usually been greatest after a sharp November - December decline. This decline a year ago was rather small—only some 8 points in the Dow-Jones industrial average—and hence there was not a too good technical base for rally. Also there was considerable doubt about 1948 business, mistaken doubt as it turned out. As a result the year-end rise was the smallest in many years. If the post-election decline, already sharp, goes even moderately further, as of the December low, there will be the most favorable technical base for a year-end upswing in a long time—but not a good psychological basis. Business will be good in 1949, but present worries do not have much to do with prospective business volume. They relate to taxes and controls; and might be exaggerated. As to whether they actually are, however, the market probably will still be in the dark at the season of the usual year-end move.

Oil

Oil company earnings could come down materially if taxes are raised, and more if there were any kind of a roll-back of prices. However, price-earnings ratios are abnormally low and dividends abnormally conservative. Hence, this column thinks that, wherever the general decline in the market halts, good oils will be among the most attractive issues for purchase. One of the more conservative issues in this group, outstanding for income return, is Union Oil of California. Earnings will be in the vicinity of $6.50 a share this year. The regular dividend rate is $2.50. The stock at this writing is around 30, giving a yield of about 8.3%. The range so far this year has been 38⅞-21½, but when it sold down to 21½ on the market slump to 165 (Dow industrials) last March, the dividend was at a $1.40 rate. This company has paid a fair to good dividend every year since 1916.

Aircraft

The aircraft industry is no doubt in for at least a couple of years of good business. Earnings are something else again. They are already up from the poor 1947 results, and in most cases are medium-good. Allowing for increased volume, they might well improve further in 1949 even if taxes are raised. The price-earnings ratios are fairly low in an absolute sense, as they ought to be. However, when you compare them with the present ratios on oil stocks, automobiles, coppers and others with a much greater basic investment appeal than aircraft issues, the latter look high to this column rather than low. Nevertheless, aircrafts probably will fare somewhat better than the general list over the foreseeable future, since the industry is the outstanding beneficiary of the arms program. It should be noted that the relative position of United Aircraft and Curtiss-Wright, the two dominant makers of air-cooled airplane engines, has been weakened by the sharp military shift to jet engines, which a number of firms either make or can make.

Hedge

If the common man continues to prosper, he will spend freely and go into debt. If he finds the going less good under the Truman version of the New Deal than he is counting on, he will spend less freely but still go into debt. In other words, the small-loan companies always have a pretty high degree of stability in earnings and dividends, in good times or bad. Household Finance is the largest of these concerns. Earnings this year will set a new peak, well over last year's $3.19 a share, and the $2 dividend appears secure. The stock, around 27½ at present, yields about 7.2%.

DECLINES SHOWN IN RECENT EARNINGS REPORTS

		1948	1947
Calumet & Hecla Cons. Copper	9 mos. Sept. 30	$ .47	$ .84
Clinton Industries	9 mos. Sept. 30	.21	4.06
Columbia Broadcasting System	39 weeks Oct. 2	1.75	2.13
Decca Records	9 mos. Sept. 30	.71	1.44
Firth Carpet	9 mos. Sept. 30	3.00	1.80
General American Transportation	9 mos. Sept. 30	4.01	4.94
Knott Corp.	9 mos. Sept. 30	4.28	4.60
Sun Chemical Corp.	9 mos. Sept. 30	.54	.78
United Merchants & Mfrs.	Sept. 30 quar.	.88	1.23
Wilson-Jones	Year Aug. 31	2.52	3.40

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Owens Illinois Glass Company

"Please advise recent annual earnings and prospects for coming year of Owens Illinois Glass Co."

G.F., Stratford, Conn.

Net sales and other operating revenues of Owens Illinois Glass Company for the 12-month period ended September 30, 1948 amounted to $230,877,851, and net earnings equalled $8,319,893, as compared with $16,402,124 earned in the preceding 12 months, on net sales and other operating revenues of $229,534,545. These earnings are equivalent to $2.72 per share on the 3,056,874 common shares outstanding September 30, 1948 as compared with $5.43 per share for the 12-month period ended September 30, 1947, on the 3,022,336 common shares then outstanding.

While for the first eight months of 1948 glass container industry shipments were some 14% less in the corresponding period of 1947, it now appears that shipments for the year will total between 95 to 100 million gross. This volume of business of the glass container industry represents approximately a 100% increase over the average shipments of the 5 pre-war years, 1936 thru 1940.

Owens Illinois Glass Company will have completed its post-war capital improvement program this year. It will enter the year 1949 with one of the smallest unexpended capital budgets in its history.

Dividend payments this year have totalled $3.00 per share. Outlook for 1949 appears favorable.

Mengel Company

"Please advise on current earnings and outlook for Mengel Company."

L.M., Chicago, Illinois

The Mengel Company earned in the first nine months of 1948 a net profit of $1,613,277, equal after preferred dividends to $2.77 per common share, compared with $1,542,888 or $2.65 a common share earned in the same period of 1947.

For the quarter ended September 30, 1948, Mengel had a net profit of $384,044 equal to 65 cents a common share against $437,044 or 74 cents a common share in the corresponding 1947 quarter.

In addition to the above, earnings of U. S.-Mengel Plywoods, Inc. applicable to Mengel's equity (50%) in its capital stock, amounted to $123,579 during the third quarter of 1948 which is equivalent to 22 cents per share of Mengel common stock, and for the nine months amounted to $422,167 or 75 cents per share.

Mengel's sales for the first nine months of 1948 were $28,257,041 and for the third quarter $9,096,245, which compared with $25,453,661 and $8,161,169 in the corresponding period of 1947. During the last quarter, furniture shipments improved substantially despite the weak market conditions. Production of fir plywood (a softwood) has increased. This, coupled with the weakness of the furniture market, has brought about considerable change in the production program of company's plywood operations. Prices of some products declined while the changing conditions increased costs. Even though the aggregate volume during the quarter was at a high level, the profit was somewhat lower than for the corresponding quarter of last year. Dividends including extras totalled $1.25 per share up to October 1, 1948. Outlook in coming months appears favorable.

Masonite Corporation

"What was recent net income of Masonite Corporation and what dividend does the corporation pay?"

J.D., Boston, Mass.

Masonite Corporation net sales for the fiscal year ended August 31, 1948, were $36,472,950, an increase of 44% over the previous year. The increase was chiefly the result of a full year's operation of a new production unit at the company's Laurel, Mississippi plant.

Net earnings amounted to $7,027,335, which is equal to $11.71 a share on the 600,000 shares of outstanding common stock, compared with $4,381,142, or $7.30 a share for the 1947 fiscal year.

Total dividend payments for the year were $1,800,000 or $3.00 a share, compared with $1,200,000 or $2.00 a share in 1947. The regular dividend rate is now on the basis of $2.00 annually. Earnings of $8.71 a share were retained in the business.

During the fiscal year, prices of Masonite hardboards were increased 6% but 65% of this increase was attributable to increased freight rates. In addition, Masonite's record on prices during the inflationary period is outstanding, as the company has been able to absorb increases of 132% in labor costs, including overtime, and 269% of raw material costs since 1939 with an average increase in Masonite

(*Please turn to page* 199)

Keeping Abreast of Industrial and Company News

American Viscose Corporation has developed a new high-speed continuous process for spinning viscose filament yarns, whose distinguishing characteristic is the speed at which the yarns are spun. Spokesmen claim that the new process cuts the time for making rayon yarn from hours to minutes when compared to the standard pot process, and from minutes to seconds compared to existing continuous process methods.

For the first time on a large scale in gray iron foundries, 100 percent annealing of soft gray iron castings is being used with remarkable results. This has been disclosed by J. H. Smith, general manager of the Central Foundry Division of **General Motors.** Tool life in machining these castings, he states, has gone up four times in tests involving one and a half years of use of this process. He adds that other new methods now being used have increased the earning span of molders fifteen years in upper-age brackets.

After ten years of experimentation and research, the **Weyerhauser Timber Company,** the **Howard Smith Paper Mills, Ltd.,** and **Babcock & Wilcox Company** have solved an eighty-year-old problem of the pulp industry and evolved a new process in the manufacture of sulphite wood pulp. This is expected to result in more complete utilization of Pacific Northwest timber species, permitting the timber company to recover materials that were formerly wasted.

Hewitt-Robbins, Inc. has developed a machine that is designed to shake out the sand from a 100-ton steel casting mold in less time than a housewife can shake out flour for biscuits. When completed in January, the machine will be the biggest foundry shakeout in the world. Vibrating fifteen times per second, the shakeout takes only two men and a few minutes to do the job, compared with four to ten men working six hours with hand tools to do the same job.

Over 665,000 telephones were added to the **Bell System** during the third quarter, bringing the total increase so far in 1948 to 2,150,000 which is more than all the telephones in France. New demands for telephone service continue high and despite the extraordinary rate at which telephones are being installed, there are still 1,250,000 on the waiting list. There are now nearly 30,660,000 Bell telephones in service.

Douglas Aircraft Company's principal hope for additional commercial plane business lies in the DC-6A, a cargo version of the DC-6 passenger transport. There are only seven or eight DC-6 passenger planes left to be delivered. Douglas is hopeful that some of the cargo lines, if given certificates, will purchase the cargo planes. The company is also hopeful that when Congress convenes, it will fill a big gap in the air force program, namely, transport planes.

When rare krypton gas was substituted in fluorescent lamps recently in place of the normal argon, engineers from **Westinghouse Electric Corporation** found that they had boosted efficiency as much as 17 per cent. A home-size 25-watt krypton-filled lamp thus provides 50 per cent more light than a conventional 20-watt lamp, for only 25 per cent more electricity; it also provides five times as much light as an incandescent bulb of the same wattage.

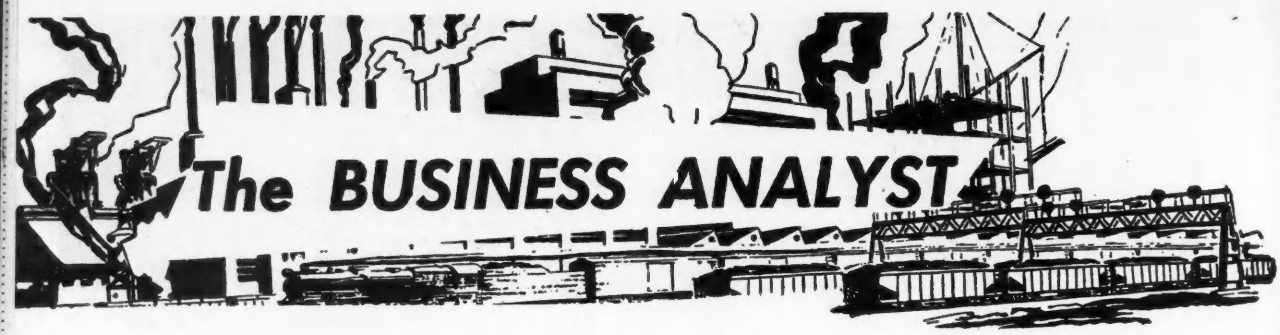
An "electronic slide rule" that solves problems of motion just as fast as it takes for the motion to happen and gives the answers in a steady stream on a special tape has been designed and built by the Goodyear Aircraft Corporation, a subsidiary of **Goodyear Tire and Rubber Company.** According to engineers, the computer takes the drudgery out of creative engineering. It solves mathematical equations in one-tenth the time otherwise required.

Marking its first venture into the chemical field, the **Bridgeport Brass Company** has introduced a new household deodorant, "Good-Air," in the New York market. The product is the result of three years of research and some twelve months of test sampling.

The use of plastics in the manufacture of toys is still on the increase, despite the fact that during the early part of the year other raw materials used by the industry were more readily available than during last year. According to F. A. Abbiati of **Monsanto Chemical Company,** almost 40 per cent of the toy industry's 350 to 500 million dollar 1948 sales will consist of items made of plastics.

The **Baltimore and Ohio Railroad** will increase its supply of coal hopper cars by rebuilding 2,000 of them in its own shops. R. B. White, president, states that by rebuilding this equipment, the railroad will be able to further augment its car supply and do it faster than in any other way. It is estimated that rebuilt cars can be turned out at the rate of more than 100 per month.

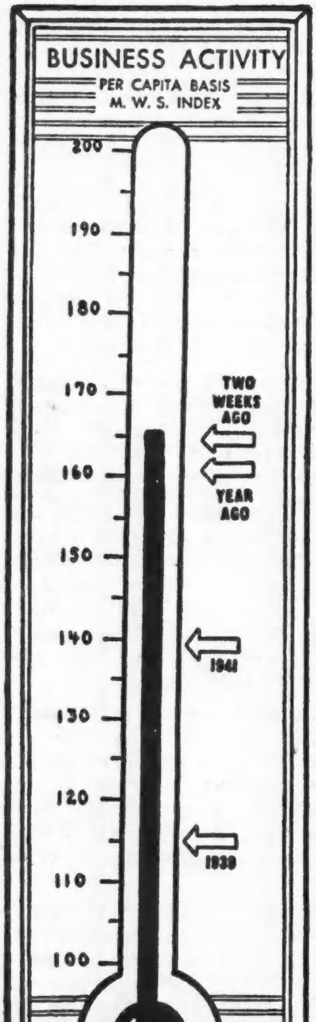
The **Minneapolis-Honeywell Regulator Company** has embarked on an extensive advertising campaign on behalf of its new plug-in Chronotherm, a day-night clock thermostat that is said to be capable of reducing fuel consumption from 10 to 30 per cent. Officials say that this is the first clock thermostat ever designed for installation by the householder. It can be installed in a few minutes to replace a manually-operated thermostat, and requires no extra wiring installation.



What's Ahead for Business?

By E.K.A.

The election outcome undoubtedly was a shock to business and rudely disturbed some pleasant anticipations based on a Dewey victory. However, the acute attack of jitters as reflected by the stockmarket appears hardly justified. In this connection this column would like to refer to the special report from Washington on page 173. While the observations contained therein probably cannot compensate fully for the disappointment felt, it should help get things into proper perspective.



True, the hoped for "new climate" for business has now become no more than a faded dream, whatever the "new climate" was supposed to have meant. This hardly implies, however, that business henceforth will have to operate under conditions much less favorable than in the past, and the past — it must be admitted — has been quite profitable. Greatest fears center on the prospect of higher taxes for business, possible price controls, more Government support for labor, and generally an anti-business attitude by Government. There is every indication that most of these fears, and the last-mentioned particularly, are exaggerated.

While the President during his campaign has said harsh things about business, he is not likely to risk undermining the country's economic health and strength by ill-timed or ill-advised experiments at a time when we need every ounce of our strength for international as well as domestic reasons. More likely he will pursue policies that should assure a continued high level of business activity. Admittedly there are long-range clouds in the picture but immediate prospects appear little changed by the election upset.

At any rate, a critical appraisal must be postponed until we know more in detail about the Administration's future economic course, its legislative program and the willingness of Congress to follow it. The latter is by no means a foregone conclusion.

Defense and foreign aid are still the key to the general outlook, and defense outlays are not likely to be pared. Rather they may rise and to that extent further support business activity. Higher Government expenditures would logically call for higher taxes; still a moderate rise in the tax on business would not be a serious blow so long as profits remain high.

There is nothing picayune about currently reported business profits; on an overall basis they are setting new records though individual experience varies. Defense spending and increased foreign aid will keep them high. Without such spending, they would now be in a gradual downtrend in many lines as economic readjustment progresses. Hence in the final analysis, future profit potentials may not differ greatly, even with higher taxes, from what they might be otherwise. Sudden removal of the spending prop could demonstrate this rather convincingly. While a "peace scare" is not probable in the near future, its impact — if we had one and it implied a lowering of arms outlays — might easily be worse than a moderate tax increase, from the standpoint of corporate profits. At any rate, most businessmen will agree that higher taxes are preferable to budget deficits; where opinions vary is which taxes should be raised, and how.

No Cause for Alarm

It may be, as some fear, that the election results will produce some caution in business planning though evidence to that effect is thus far lacking. Plant expansion programs may be reviewed but it is doubtful whether they will be much affected. If they are, it will be due to high costs rather than political factors — thus the cutting back would have occurred anyway. Inventory buying may be more cautious, but it's been cautious right along; it's a healthy factor rather than otherwise. And inventory liquidation is not in the cards, since inventories are moderate in relation to current sales.

Should business outlays actually be reduced, for one reason or another, it could have the effect of permitting increased Government spending without the need for inflation controls since pressure on prices would be lessened. It's something that remains to be seen, however. All in all, there are elements of great strength in the economy that assure good business. While the election has created uncertainties, it has done nothing to detract from these potentials.

The Business Analyst

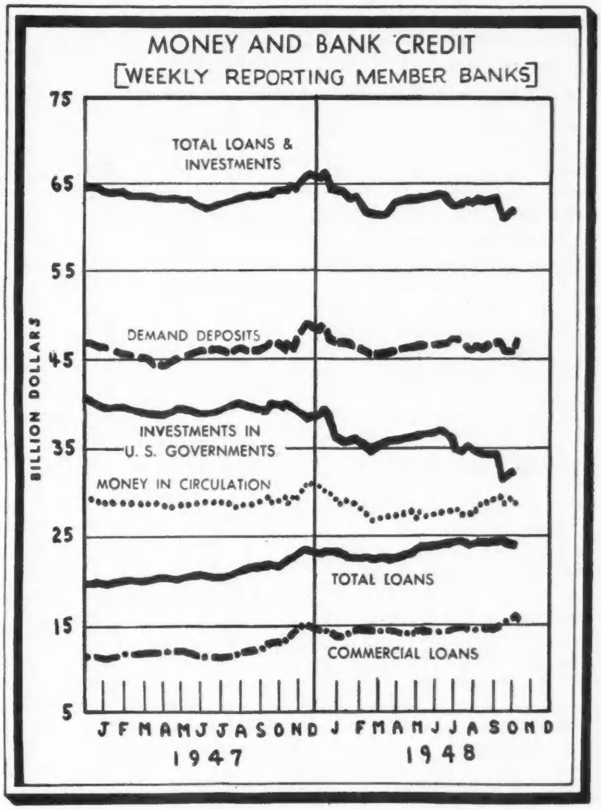
HIGHLIGHTS

MONEY AND CREDIT — Stock market slump following the surprise election sharpest since week ended May 17, last year, when averages made their 1947 lows. Though a few individual stocks closed up on the week, all 46 of the M. W. S. group indexes declined by varying amounts, and the week ended with our three major indexes down a little on the year. Bank stocks and bonds of all grades also declined; though not so swiftly as common stocks. Foreign government dollar bonds, on the other hand, were up fractionally on the week, indicating that apprehension for the time being was centered upon domestic affairs. It may be noted in passing that aggregate net earnings reported by national banks for the first half were 11% ahead of the like period last year, while dividends declared were up 6%. Now that Mr. Truman has won, it is not certain that the Federal Reserve banks will lift reserve requirements and short term interest rates another notch in the near future, as had been planned prior to the election. As commented in this column a few months ago, it would be awkward to have a business recession dumped into the President's lap after he had predicted it for Mr. Dewey.

TRADE — September retail store sales were 7% above last year; but department store sales in week ended Oct. 30 were up only 2%, against 7% increase for year to date.

INDUSTRY — Business activity expanded 1½% in fortnight ended Oct. 30, to a level 4.3% above last year. September dividends 19% above like month last year. Election points to emasculation of Taft-Hartley law; greater government spending; yet higher wages, costs and prices; probable price ceilings on heavy goods, and possible restoration of excess profits tax and other profit controls.

COMMODITIES—Farm products prices advance sharply on belief that Truman is more likely than Dewey would have been to bolster farm incomes.



Department Store Sales in the closing week of October were only 2% above the like period last year, compared with a cumulative gain of 7% for the year to date. Retail store sales for the month of September were 7% ahead of last year; but month-to-month gains in the past three months have been of no more than seasonal proportions.

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Retail Trade will be brisk under a new wave of inflation—barring a business recession, the possibility of which should not be ignored; but some business will be lost to black markets if price ceilings are restored.

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Business Activity expanded 1½% in the fortnight ended Oct. 30, to a level 4.3% above last year at this time. For the month of October, this publication's Business Index rose to 187.7% of the 1935-9 average—0.9 point ahead of September, and 4% above October, 1947. On a per capita basis, our October index registered 166% of the 1935-9 average, compared with 164.5 in September and 161 for October of last year.

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Cash **Dividends** disbursed in September were 19% more liberal than for the like month last year, compared with a rise of only 14% for the third quarter.

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A compilation by the National City Bank shows that 400 leading corporations reported **Profits** for nine months averaging 18.7% on net worth, compared with only 16% for the like period last year. The largest increase, 50%, was for petroleum products. At the other extreme were food products, with a decline of 16%, mainly attributable to inventory losses. Yet the public believes food stores are profiteering.

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The Consumers Union remarks bitterly that corporate profits after taxes have increased more than 100% since 1946, whereas inflation reduced purchasing power of the average consumer by 10% in the same period. Against this, the National City Bank points out that, comparing 1948 with the big boom year, 1929, corporate profits expressed as a percentage of the **National Income** have declined 5%, whereas total compensation of employees has increased 5%. Meanwhile, moreover, disbursements of interest and dividends to investors declined 60%.

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What can happen to profits in these days of inflexible high costs is illustrated strikingly by the case of Mack **Trucks,** which reported for the third quarter a slump of 66% in net, accompanying a dip of only 16% in sales.

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Despite persistently mounting costs, expenditures on new **Construction** during October were 14% above the corresponding month last year, compared with a cumulative increase of 31% for ten months.

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(Please turn to the following page)

Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
MILITARY EXPENDITURES—$b (e)	Oct.	1.08	0.97	1.06	1.55
Cumulative from mid-1940	Oct.	373.6	372.5	360.6	13.8
FEDERAL GROSS DEBT—$b	Nov. 3	252.5	253.3	258.7	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	Oct. 27	47.4	47.0	47.8	26.1
Currency in Circulation	Nov. 3	28.3	28.1	28.6	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	Oct. 27	8.21	8.09	7.26	4.26
93 Other Centers—$b	Oct. 27	12.68	12.57	11.51	7.60
PERSONAL INCOMES—$b (cd3)	Aug.	217	215	193	102
Salaries and Wages	Aug.	139	136	124	66
Proprietors' Incomes	Aug.	50	51	43	23
Interest and Dividends	Aug.	17	17	16	10
Transfer Payments	Aug.	11	11	10	3
(INCOME FROM AGRICULTURE)	Aug.	26	27	20	10
CIVILIAN EMPLOYMENT—m (cb)	Oct.	60.1	60.3	59.2	51.8
Agricultural Employment (cb)	Oct.	8.6	8.7	8.6	8.8
Employees, Manufacturing (lb)	Sept.	16.6	16.4	16.2	13.8
Employees, Government (lb)	Sept.	5.8	5.6	5.4	4.6
UNEMPLOYMENT—m (cb)	Oct.	1.6	1.9	1.7	3.8
FACTORY EMPLOYMENT (1b4)	Sept.	164	162	160	47
Durable Goods	Sept.	187	185	183	175
Non-Durable Goods	Sept.	145	143	142	123
FACTORY PAYROLLS (1b4)	Aug.	375	360	332	98
FACTORY HOURS & WAGES (1b)					
Weekly Hours	Sept.	39.7	40.1	40.4	40.3
Hourly Wage (cents)	Sept.	136.3	134.9	124.9	78.1
Weekly Wage ($)	Sept.	54.06	54.12	50.43	32.79
PRICES—Wholesale (1b2)	Oct. 30	163.8	165.3	157.4	92.5
Retail (cdlb)	Aug.	196.2	195.1	181.4	116.2
COST OF LIVING (1b3)	Sept.	174.5	174.5	163.8	110.2
Food	Sept.	215.2	216.6	203.5	113.1
Clothing	Sept.	201.0	199.7	203.5	113.8
Rent	Sept.	118.5	117.7	113.6	107.8
RETAIL TRADE—$b					
Retail Store Sales (cd)	Sept.	10.98	10.67	10.25	4.72
Durable Goods	Sept.	3.16	3.29	2.73	1.14
Non-Durable Goods	Sept.	7.82	7.38	7.52	3.58
Dep't Store Sales (mrb)	Sept.	0.90	0.76	0.85	0.49
Retail Sales Credit, End Mo. (rb2)	Sept.	7.01	6.75	5.12	5.46
MANUFACTURERS'					
New Orders (cd2)—Total	Aug.	259	246	231	181
Durable Goods	Aug.	315	291	261	221
Non-Durable Goods	Aug.	225	219	213	157
Shipments (cd2)—Total	Aug.	338	308	287	187
Durable Goods	Aug.	370	333	301	227
Non-Durable Goods	Aug.	320	294	279	158
BUSNESS INVENTORIES, End Mo.					
Total—$b (cd)	Aug.	52.6	51.7	45.9	28.9
Manufacturers'	Aug.	30.4	30.2	27.0	16.7
Wholesalers'	Aug.	8.2	8.0	7.1	4.1
Retailers'	Aug.	14.0	13.5	11.8	8.1
Dept. Store Stocks (mrb)	Aug.	2.2	2.1	1.9	1.4
BUSINESS ACTIVITY—1—pc	Oct. 30	166.5	165.0	162.7	141.8
(M. W. S.)—1—np	Oct. 30	189.3	187.5	181.3	146.5

PRESENT POSITION AND OUTLOOK

(Continued from page 195)

The longer range social portents of the surprise **Election** which has revealed an ominous drift toward statism in this land of hitherto free enterprise, are even more thought-disturbing than its nearer term business impact. With left-wing, anti-business elements now in the saddle, we can only look forward to more favoritism to powerful leaders of organized labor.

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The Taft-Hartley law will be emasculated, though probably not repealed in its entirety. With restraint upon Government spending weakened, some think that the Federal **Budget** for fiscal 1950 may jump by at least $3 billion, from the present $42 billion. Further **Wage Increases** will be tolerated, if not encouraged, at the expense of far greater numbers of unorganized workers.

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Profits will be squeezed by mounting costs, price ceilings and possibly a revived excess profits tax. Heavy goods industries will be harder hit than soft goods; since the latter can evade price controls more readily than the former by reducing quality and concentrating on the more profitable lines. **Taxes** on higher bracket incomes may be raised again.

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Prior to the election, **Prices** for farm and non-farm products were moving in opposite directions. The Labor Bureau's broad index of prices for farm products, as of Oct. 30, was down 4% from a year earlier; whereas metals were up 14%. Just prior to the election, the price of **Lead** was upped 2 cents to the record high of 21½ cents. The price ceiling for this metal during the war was 6½ cents. Now it is 320% above the 1939 average of less than 5 cents. **Copper** is in such short supply that another boost in price before long would occasion little surprise.

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Despite unsettled factors previously outlined, there is no evidence as yet of any appreciable contraction in the overall volume of business. **Unemployment,** which is one of the more sensitive measures of general business conditions, was around 100,000 lower in early October than in September, and about the same as a year earlier.

* * *

Readjustments, however, are still taking place in a number of lesser industries. To mention only a few from recent news items: the backlog of unfilled orders for office machines is now shrinking so rapidly that producers are stepping up their sales

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
INDUSTRIAL PROD.—1—np (rb)	Sept.	196	191	187	174
Mining	Sept.	154	159	153	133
Durable Goods Mfr.	Sept.	223	222	217	220
Non-Durable Goods Mfr.	Sept.	178	176	172	151
CARLOADINGS—t—Total	Oct. 30	932	928	941	833
Manufactures & Miscellaneous	Oct. 30	428	425	430	379
Mdse. L. C. L.	Oct. 30	111	111	123	156
Grain	Oct. 30	58	56	52	43
ELEC. POWER Output (Kw.H.) m	Oct. 30	5,555	5,539	5,009	3.267
SOFT COAL, Prod. (st) m	Oct. 30	12.2	12.0	12.9	10.8
Cumulative from Jan. 1	Oct. 30	486	474	513	446
Stocks, End. Mo.	Sept.	67.6	64.1	48.4	61.8
PETROLEUM—(bbls.) m					
Crude Ooutput, Daily	Oct. 30	5.6	5.6	5.3	4.1
Gasoline Stocks	Oct. 30	92	91	82	86
Fuel Oil Stocks	Oct. 30	81	81	57	94
Heating Oil Stocks	Oct. 30	82	80	63	55
LUMBER, Prod. (bd. ft.) m	Oct. 30	528	548	520	632
Stocks, End Mo. (bd. ft.) b	Aug.	6.6	6.3	6.0	12.6
STEEL INGOT PROD. (st.) m	Sept.	7.41	7.44	6.80	6.96
Cumulative from Jan. 1	Sept.	65.0	57.6	62.7	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	Nov. 4	109	179	97	94
Cumulative from Jan. 1	Nov. 4	6,035	5,925	4,789	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	Oct. 30	200	162	193	165
Pneumatic Casings Production—m	Aug.	7.0	6.7	7.2	4.0
Natural Rubber Consumption (st)t	Aug.	53.0	48.8	47.3	54.3
Do., Synthetic	Aug.	39.2	34.5	39.0	0.5
Footwear Production (pairs)m	Aug.	41.3	32.0	39.0	34.8
Portland Cement Production (bbls.)m	Aug.	19.0	18.7	17.5	14.9

PRESENT POSITION AND OUTLOOK

efforts vigorously; new orders booked by furniture makers in September were 3% below last year; September production of radio receiving sets was still 13% below last year, despite a spectacular rebound from the July low.

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On the other hand, revenue passenger miles flown by trunk **Airlines** in July were 2.3% more than for the like month last year, against a 2% decline for 12 months.

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While it is too early as yet to predict with confidence the overall effect of the election upon general business activity, one may at least mention the vulnerability of an **Economy Bolstered by Government Spending.** Removal of this prop, from whatever cause, would undoubtedly precipitate a recession—except in the unlikely event that Europe should at that time still be in need of large scale assistance from us.

* * *

President Allan Sproul of the New York Federal Reserve Bank, thinks we are heading into a period of fiscal problems resembling **War Finance,** during which Government credit must be sustained by continued support of the Government bond market, and which might involve some control of capital expenditures.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept. (Avge. Month 1939—100). cd3—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cd1b—Commerce Dept. (1935-9—100), using Labor Bureau and other Data. e—Estimated. en—Engineering News-Record. I—Seasonally adjusted Index (1935-9—100). lb—Labor Bureau. lb2—Labor Bureau (1926—100). lb3—Labor Bureau (1935-9—100). lb4—Labor Bureau, (1939—100). lt—Long Tons. m—Millions. mpt—At Mills, Publishers, and in Transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without Compensation for Population growth. pc—Per Capita Basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, Instalment and Charge Accounts. st—Short Tons. t—Thousands.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

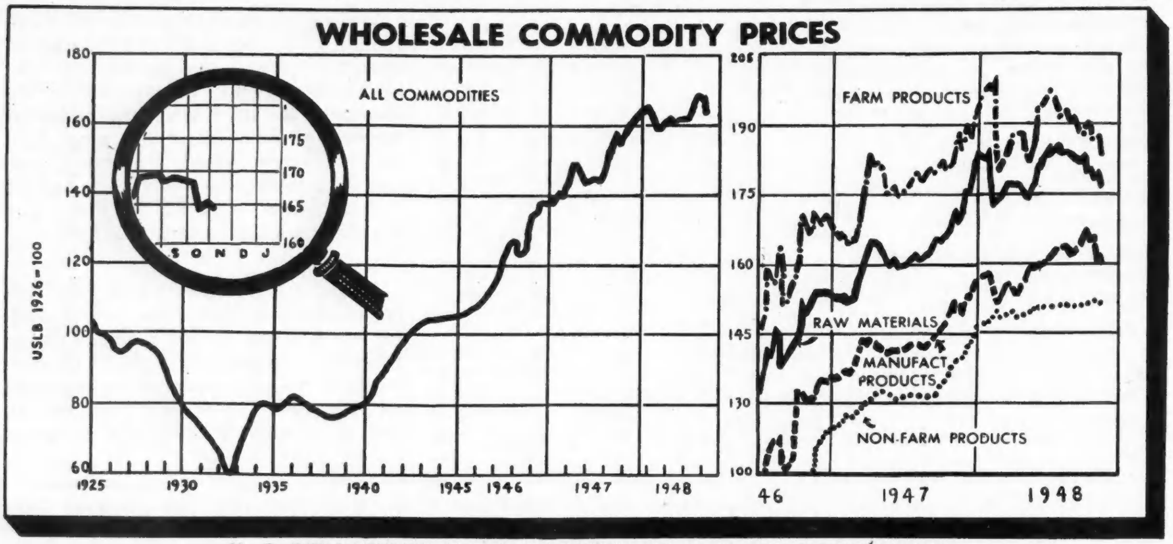
No. of Issues (1925 Close—100)	1948 Indexes High	Low	Oct. 30	Nov. 6
312 COMBINED AVERAGE	151.9	119.0	138.4	127.8
4 Agricultural Implements	240.1	178.8	215.4	203.2
11 Aircraft (1927 Cl.—100)	193.5	134.3	176.8	161.6
6 Air Lines (1934 Cl.—100)	515.6	368.7	428.6	378.7
6 Amusement	106.8	73.5	78.2	75.9
13 Automobile Accessories	224.1	171.1	204.1	186.0
12 Automobiles	41.3	31.3	34.2	31.3a
3 Baking (1926 Cl.—100)	21.9	16.4	20.3	19.0
3 Business Machines	297.1	224.7	263.7	245.0
2 Bus Lines (1926 Cl.—100)	168.4	133.4	141.5	137.6
5 Chemicals	267.1	221.6	247.3	230.2
2 Coal Mining	26.9	14.7	22.9	20.4
4 Communication	56.1	40.3	43.9	40.3f
13 Construction	71.5	56.6	62.5	57.9
7 Containers	346.0	270.3	297.7	270.3d
9 Copper & Brass	119.1	92.0	104.0	96.8
2 Dairy Products	60.2	50.7	57.8	55.6
5 Department Stores	71.9	53.9	62.7	60.0
6 Drugs & Toilet Articles	184.4	144.1	155.2	144.1c
2 Finance Companies	268.3	199.4	255.1	237.7
7 Food Brands	177.6	152.8	159.9	155.9
2 Food Stores	67.5	59.7	65.2	60.7
3 Furniture	88.3	70.9	80.8	76.0
3 Gold Mining	772.7	557.4	574.0	557.4f

(Nov. 14, 1936, Cl.—100)	High	Low	Oct. 30	Nov. 6
100 HIGH PRICED STOCKS	91.84	75.27	86.64	81.27
100 LOW PRICED STOCKS	182.86	135.10	160.64	146.02
6 Investment Trusts	71.6	60.0	63.1	57.2
3 Liquor (1927 Cl.—100)	843.5	637.7	707.4	687.3
9 Machinery	179.5	136.8	150.4	137.4
3 Mail Order	125.5	89.8	108.2	103.8
3 Meat Packing	112.7	79.3	83.5	79.3c
13 Metals, non-Ferrous	189.1	138.0	173.7	160.1
4 Paper	48.7	34.1	41.2	38.2
25 Petroleum	301.0	199.5	263.3	242.0
19 Public Utilities	124.9	97.8	114.8	105.0
5 Radio (1927 Cl.—100)	30.6	17.8	24.8	22.0
8 Railroad Equipment	67.2	52.7	57.3	52.7d
24 Railroads	30.3	20.5	27.5	24.5
3 Realty	27.1	21.1	26.4	24.3
2 Shipbuilding	146.1	102.8	140.6	132.3
3 Soft Drinks	516.5	321.1	343.3	322.1
14 Steel & Iron	127.0	96.2	121.3	109.8
3 Sugar	54.7	44.8	50.5	47.8
2 Sulphur	281.9	206.6	279.6	268.8
5 Textiles	170.4	118.9	147.0	138.5
3 Tires & Rubber	34.5	27.5	33.8	31.6
6 Tobacco	71.7	62.4	70.6	67.4
2 Variety Stores	327.8	286.9	317.3	311.8
17 Unclassified (1947 Cl.—100)	109.8	90.0	100.7	94.6

New LOW since: a—1947; c—1945; d—1944; f—1942.

Trend of Commodities

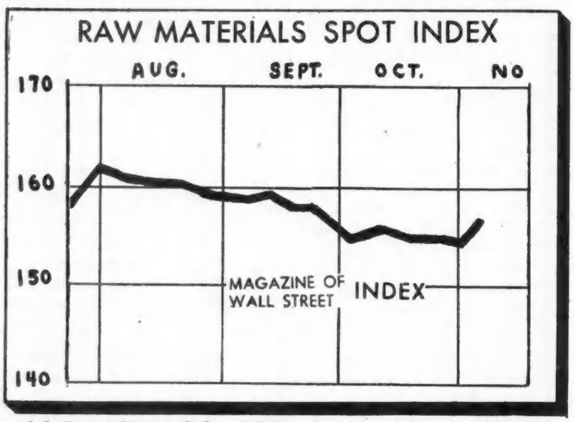
Farm products prices, cash and futures, rose substantially during the past fortnight. Since about half the advance took place prior to the election, Mr. Truman can not claim full credit for such strength. Fact is that both parties pledged continuance of a firm support policy. In some quarters there lurked a little suspicion of Mr. Dewey's sincerity in this matter; but, rather ironically, talk has arisen since the election as to the expediency of bolstering living costs for non-farm consumers. The Commerce Secretary is openly opposed to this, and even the President and his Secretary of Agriculture are on record as favoring some lowering of crop price supports at the end of next year when wartime support levels will be dropped under present law. Should present prices hold, and they could under heavier government spending and its consequent inflationary effects, the question of lowering Government support levels would become merely academic; for support for a number of crops would then not be needed. Against this "iffy" possibility are prospects of more record crops next year. The Agriculture Department reports that a near record 79 million acres have been seeded for next year's wheat crop, despite the Department's advice earlier this year that acreage be reduced to 70 million. The all-time record was 80.8 million acres seeded in 1937. But this yielded only 874 million bushels of wheat, whereas the 77.9 million acres seeded in 1947 yielded a record 1,365 million bushels this year. Mechanization largely accounts for the almost miraculous increase. The Agriculture Department also reports that world production of rice for the 1948-9 market year will approximate 7.3 billion bushels, compared with 7.1 billion last year and 7.45 billion pre-war; world cottonseed production is estimated at 13.7 million short tons—17% above last year.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices — August, 1939, equals 100

	Date Nov. 8	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	306.6	305.1	305.5	320.0	319.3	348.0	156.9
11 Imported Commodities	278.9	278.3	277.5	290.0	274.7	313.9	157.5
17 Domestic Commodities	325.9	323.8	325.1	341.1	351.9	372.0	156.6

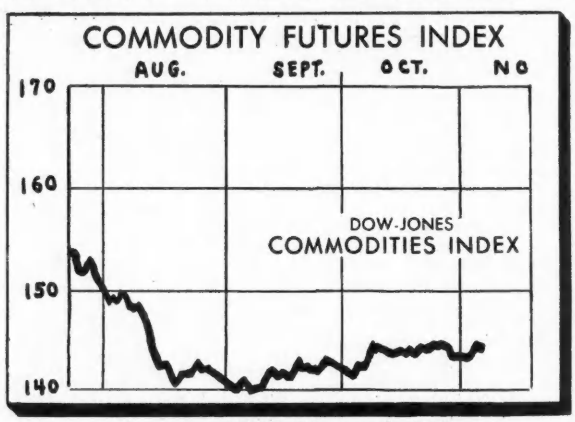
	Date Nov. 8	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
7 Domestic Agriculture	321.3	323.1	325.9	364.8	373.7	392.6	163.9
12 Foodstuffs	351.8	354.9	357.7	388.3	400.2	434.1	169.2
16 Raw Industrials	278.5	275.7	274.9	280.8	274.2	290.8	148.2



14 Raw Materials, 1923-5 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1948	1947	1945	1943	1941	1939	1938	1937
High	162.2	164.0	95.8	92.9	85.7	78.3	65.8	93.8
Low	149.2	126.4	93.6	89.3	74.3	61.6	57.5	64.7



Average 1924-26 equals 100

	1948	1947	1945	1943	1941	1939	1938	1937
High	168.83	175.65	106.41	96.57	84.60	64.67	54.95	82.44
Low	139.83	117.14	93.90	88.45	55.45	46.59	45.03	52.03

Companies with Large Earnings and Outstanding Prospects

(*Continued from page* 181)

specialties and must be assured of castings accurately made and properly finished. The number of concerns competent to supply these goods is rather limited, so that their sales growth and earnings improvement have been marked in postwar and seem certain to continue.

Answers to Inquiries

(*Continued from page* 192)

prices of only 28.6% in the same period. The relatively small increase in prices was made possible through a huge increase in production, as well as some substantial improvement in operations.

Virginia Electric & Power Company

"Please furnish information as to revenues and dividends of Virginia Electric & Power Company."

W.F., Los Angeles, Calif.

Operating revenues of Virginia Electric & Power Co. for the twelve months ended September 30, 1948, totalled $48,575,136, an increase of $5,420,421 over revenues of $43,155,715 for the twelve months ended September 30, 1947. Operating revenues for the month of September 1948 totalled $4,299,488 compared with $3,683,-499 in September 1947. Operating expenses and maintenance for the monthly period increased approximately $650,000, with the high cost of fuel and purchased power accounting for $385,000 of the increase.

A substantial saving in cost of power will be effected when the company's new Possum Point Power Station near Alexandria goes into operation in a month or so. The company estimates that the cost of power in the past year would have been $1,695,000 less if this station has been in operation during that time. This, together with the rate adjustments already in effect or expected to be in effect shortly and giving effect to present fuel and labor costs, would have resulted in earnings of $1.78 per common share for the twelve months ended September 30th last compared with $1.38 per share reported, in both cases based on the average number of shares outstanding. Regular 30 cent quarterly dividend is expected to continue.

Bigelow-Sanford vs. Mohawk Carpet

(*Continued from page* 186)

Bigelow-Sanford. Like its competitor, it has strategically located sales offices and warehouses throughout the country, depending mainly on domestic trade, and additionally maintains a sales subsidiary in Mexico City. Manufacturing is concentrated in Amsterdam, N. Y., where 55 buildings comprise the plant and nearly 6,000 workers are employed.

Comparative Volume Growth

Volume growth by Bigelow-Sanford in the last 20 years has been more substantial than that of Mohawk. As of 1929, sales of both concerns were near the same level, $24 million vs. $23 million. Following the 1939 depression, Bigelow-Sanford outdistanced its rival rapidly, widening the spread to $10 million by 1941. During war years, volume of the larger concern averaged about $40 million annually, rising sharply to $62.9 million in 1947 and pushing ahead in 1948 towards an all time record close to $98 million. In the same periods, sales of Mohawk climbed to around $30 million during 1941-45, then to $46.9 million in 1947 and for nine months of 1948 advanced to an annual rate of $61 million. Both concerns are now selling all they can produce and are allocating their production to customers.

Apparent operating advantages have enabled Mohawk to achieve wider margins (operating income, before depreciation, as a percentage of sales) than Bigelow-Sanford over a period of years, despite sharper volume gains by the latter. This held true only until 1947, however, when economies, modernization and larger volume pushed the margin of Bigelow-Sanford up to 12.1%, compared with 10.9% for Mohawk. But freedom from interest on funded debt, along with tax variations, enabled Mohawk to hold its advantage last year as to net income in relation to sales, for this ratio stood at 5.8% against 5.5% for its competitor.

Aside from depression years such as 1932 and 1938, when both concerns incurred deficits resulting from drastic declines in volume, more than average stability of net earnings has been characteristic in the case of both Mohawk and Bigelow-Sanford. Indeed a rapid recovery from poor times has been a notable feature in studying the earnings record of these two manufacturers.

The simple capital structure of Mohawk, consisting solely of 531,000 shares of common, has been beneficial in holding per share earnings for most years above those of the larger concern. Bigelow-Sanford has 627,218 shares of common outstanding, preceded by 26,403 shares of 6% $100 par preferred and $5 million long term notes. In 1947, though, net earnings of Bigelow-Sanford equalled $5.32 per share compared with $5.15 for Mohawk, and the spread was actually wider than appeared because of hidden reserves created by Bigelow-Sanford in figuring inventory values on a Last-In First-Out (LIFO) basis. Mohawk uses the LIFO method in valuing its raw wools only.

Working Capital Position

As to working capital, both concerns are in comfortable position for the time being, though high level sales and prices, along with modernization expenditures, might soon tend to lower current ratios to a point where additional financing would be desirable. Mohawk's working capital has risen from $8.2 million in 1938 to $21.4 million at the end of 1947, solely by the retention of earnings. Bigelow-Sanford retained $8 million from earnings in recent years, but its rapid growth led it to borrow $5 million in 1946 and only poor market conditions have deferred the sale of $3 million second preferred stock of late. At that, the company's working capital stood at $26.8 million on December 31, 1947 and current assets exceeded current liabilities 3.6 to 1. But the company expects to install more broad looms and carders, at the same time anticipating larger inventories when it can more adequately stock its numerous branch warehouses, all of which points to increased capital needs in view of the bright sales horizon.

Variable earnings of both concerns over a long term have in turn led to variable dividends, marked by occasional omissions in poor years such as 1938 and the early 1930s. What counts, though, are average distributions and these have been quite satisfactory over an extended period, with Mohawk's liberality rather more pronounced. In 1947 Mohawk paid a year-end extra to bring total payments for the year up to $3 per share. The regular quarterly rate of 50 cents has been maintained in the current year and a $1 year-end extra was just declared. Earnings this year may amount to around $7 per share.

Bigelow-Sanford has no regular dividend rate but, allowing for a 2-1 stock split last spring, paid $2 per share in 1947 and 50 cents a share quarterly until recently this year. The quarterly rate was then raised to 60 cents per share and a 60 cents extra was also declared. As 1948 net earnings are likely to top $7.50 per share, these aggregate payments of $2.70 for 1948 are on the conservative side, but increased capital needs may preclude greater liberality.

Market action of the leading carpet company stocks during 1948 has rather closely followed the broad market pattern, on the whole tending to disregard good news. Current market prices, even considering evidence that consumers are beginning to display some resistance to high prices for fancier carpets, tend to discount rather modestly the record earnings and encouraging volume potentials of these leading manufacturers. Shares of Mohawk Carpet Mills seem to have been more volatile than those of Bigelow-Sanford in postwar, with respective ranges in the 1946-48 period of high — 70, low — $32\frac{3}{4}$ and high — $41\frac{5}{8}$, low — $23\frac{1}{8}$, the latter range adjusted for the 2-1 stock split last March.

Dividend Yields

At a recent price of 30, Bigelow-Sanford shares yield 9% based on 1948 dividends, while Mohawk Carpet at 38 returns 7.9% on a basis of 1947 dividends, with strong prospects that this will at least hold for 1948. Price-earnings ratios of both issues are far below normal, even in relation to last year's lower earnings. Bigelow-Sanford has the edge in this respect with the price only 5.6 times earnings compared with 7.4 for Mohawk. On basis of estimated 1948 earnings, price-earnings ratios are considerably lower in both cases.

Fundamentally, Mohawk has a more conservative capital structure and is expanding along very cautious lines. Managerial policies of Bigelow-Sanford, on the other hand, reflect aggressiveness, while an element of leverage is created by term loans and senior stock. While this adds speculative appeal to the latter shares during good times, in leaner periods net earnings could decline rather faster. Looking ahead, though, the long established trade position of Bigelow-Sanford tips the scales somewhat in favor of its common stock, in our opinion. Even under recessive business conditions, this dominant concern should enjoy certain advantages over its competitors, and as long as prosperity endures its growth could be more impressive.

The Importance of Management in Selecting Securities

(*Continued from page* 171)

is no good reason for such niggardly treatment. It makes it difficult for the stockholders to avoid asking whether "the big fellows" are thinking of their income tax. What's more, scant dividends militate against appreciation potentials of a stock; liberal dividend payers usually do better marketwise. Scant dividend thus affect a stockholder doubly: First from the standpoint of income, secondly by reduced appreciation prospects.

From a stockholders' viewpoint, then, it is more than questionable whether, and how much, he can benefit by dividend-withholding policies. Individual cases may well justify retention of earnings to an extent far greater than ordinarily desirable, particularly under today's conditions. But the practice should vary with the circumstances. And while the policy should be determined and proposed in the first instance by management, it should be subject to independent consideration and appraisal by stockholders in their own interest as distinguished from that of the corporation as a separate entity, or the management as a special group. As owners of the business and as risk takers, stockholders have a right to that.

As it is, policies are frequently determined and carried out by the management with little voice on the part of the stockholder. Where a large stock interest is held by directors, officials or others close to the enterprise, he is rather powerless. Where the proxy machinery gives officials control, this may even happen when stock is fairly widely held, unless he chooses to exercise his voting franchise, as he should.

The question of concentrated management holdings of stock thus is an important one, as is the current drift towards employee management rather than owner management. The disadvantages of concentrated ownership by the management from the standpoint of the ordinary stockholder is that dividends are not very attractive to shareholders in high tax brackets. Such concerns frequently pay out a smaller percentage of net than those in which the management has a smaller ownership risk. Naturally, under the present tax regime, the small holder is more interested in a liberal dividend policy than is the big stockholder. Additionally, at today's tax rates, it is practically impossible to settle the estate of a controlling stockholder without selling some of the shares to the public. This tends to create a supply of stock that may be overhanging the market for a long time. Another point is that wide distribution of shares among many stockholders facilitates new financing through subscription rights, whereas larger holders often lack the ready cash resources to take up their rights, hence different and less desirable means of financing must be considered.

Advantages of Owner-Management

Owner management, however, is not without certain advantages. It should provide greater incentive to take care of stockholder interests and less incentive to pay excessive compensation to officers. Since the management has most of its investment eggs in one basket, it can be expected to watch it carefully. Thus the minority stockholder should benefit from the management's application and interest.

There is another side to the ownership question. Lack of substantial ownership of stock on the

part of directors or officers may potentially lead to abuses in the form of excessive salaries, bonuses and other emoluments. This is a live question today where there are many efforts to supplement highly taxed incomes. Such efforts frequently take the form of stock options or outright stock gifts, and even pension agreements, life insurance or annuities.

Naturally, where such arrangements lack justification or go beyond the reasonable, the stockholder is the loser unless it is in his power to interfere. His loss takes not only the form of pre-empted earnings; such arrangements also swell overhead and raise break-even points; damaging the company's competitive position and increasing the risk of loss operations when volume declines. Milking a company in such manner naturally reflects on the calibre of the management; it shows that the latter's assumed wisdom and efficiency is not justified. While it is nearly always true that the management is in best position to judge which policies are most expedient, it does not follow that it will always either recognize or adopt the course most beneficial to shareholders.

The "hoarding" of cash, the policy of withholding dividends despite existence of large accumulated earnings is frequently cause of complaint as witness—to mention but a few examples—recent stockholder actions in the case of Curtiss-Wright Corp. and International Telephone and Telegraph. Such instances usually represent a clash between investment interest and management interest, the latter prone to subordinate dividends to the future welfare of the company. It is considered proper managerial policy to withhold earnings from stockholders to strengthen working capital, to increase productive capacity or to eliminate overcapitalization. But this does not justify the indefinite hoarding of large cash resources where none of these needs arise. Alert stockholders are quick to point this out, just as in the case of Pullman Inc., there was no unanimity among shareholders regarding the management's course of repurchasing company stock in the market out of the proceeds of the sale of the sleeping car business. Many stockholders would have preferred at least partial distribution of the cash assets thus acquired.

It is difficult to say whether actions, such as those cited purely as examples, constitute poor management or good management; it all depends on the viewpoint and, most importantly, on the final results of management policy. The stockholder viewpoint necessarily differs from that of a management which thinks primarily in terms of either itself or the corporation as a separate entity.

It stands to reason that management policies, including dividend policies have a bearing not only on a company's position and prospects, but particularly also on the market value of its securities. We have pointed out, as we went along, that liberal dividend payers always do better marketwise than others and from this viewpoint alone, apart from the income factor, it is understandable if stockholders view askance the often meager percentage of earnings distributed out of present-day large profits. Withholding earnings can be overdone, and is being overdone in many cases.

It is one of the reasons why the market so conservatively capitalizes corporate profits. After all, it's what the stockholder gets that counts, not reported but unavailable earnings. If the stockholder wishes more favorable considera-

tion of his interest, and who doesn't, he will do well to study and acquaint himself with management policy. He can do so not only by looking at the record, but by making it a point to exercise his voting privilege.

Realistic Survey of Electric Utility Companies

(*Continued from page* 180)

common stock equity is being automatically increased by the steady reinvestment of excess earnings. While both the commissions and the companies would like to do more equity financing, the regulatory authorities will doubtless realize the importance of completing the present building program and will permit the utilities to finance through bank loans and bonds if they can't raise the money otherwise.

What is the present outlook for utility stocks? As indicated in the accompanying table, excellent yields are now obtainable on high-grade issues. For those content with low yields but who desire greater safety of principal plus appreciation possibilities, the numerous convertible issues now available (or soon to be offered) have attractive features. The trend of utility stocks is of course largely dependent on the course of the general market. But many observers feel that utilities are more attractive than industrials because they are so nearly "depression proof" so far as earnings are concerned. As indicated above, the utilities might actually benefit by a minor let-down in business activity, since they may now lose money on some of their industrial sales.

The electric utilities are, on the average, still earning about the same as in the previous two years —increased costs have been balanced by larger sales. Of course some have done much better than others — notably southern companies burning cheap natural gas, or Pacific Coast companies getting cheap government hydro power. Some are also less harshly regulated than others — utilities in Minnesota, Texas and Florida escape state regulation, and those in Ohio benefit from a liberal state law. In Pennsylvania the commission under Republican auspices treated the utilities more liberally than its Democratic predecessor did; but in New York State, the commission headed by Mr. Maltbie has been exacting in its demands. Due recognition of all these factors is essential in buying utility stocks either for investment or speculation.

The future outlook for the electric utilities seems bright, since they are obtaining rate increases to offset higher costs, and earnings should benefit by the installation of latest-model generating equipment. The spread of air-conditioning, television, and the present huge building program are all favorable growth factors; the heat pump has great potentialities for the future. There seems to be only one "fly in the ointment"—*a possible increase in Federal taxes.*

Net earnings of many utility companies increased sharply in 1946 when excess profit taxes were eliminated, and this partially accounted for the "bull market" in utility stocks in 1945 and early 1946. There is now some talk of reimposing excess profit taxes and this would again prove a burden to some utilities, whose plant accounts and surplus have been sharply written-down in recent years because of the pressure of Federal commissions for "original cost when first devoted to public service."

Tax Outlook

However, it is unlikely that any excess profits tax will be restored on the old wartime basis. It appears more likely that the regular corporation tax rate might be increased from the present 38 per cent rate. If so, those companies which showed a big jump in 1946 earnings might prove vulnerable.

Summarizing, many utility stocks look attractive for yield and appreciation—if the tax collector doesn't get there first.

New Candidates for Extra Dividends

(*Continued from page* 189)

per share compared with $7.20 in the corresponding 1947 period, declaration of at least $1.50 per share seems fairly certain.

Another prospective candidate for a year-end extra is Crane Company, leading producer of valves and plumbing equipment. The bright vistas for this concern as a supplier of items for the active building industry support expectations that an uptrend in sales and earnings may continue for an indefinite period. How sharply earnings have gained is shown by a reported $5.67 per share in the first half of 1948, 49 cents more than the company earned in all of 1947. About a year ago, Crane Company declared an extra of $1 per share, and since only $1.20 has been paid to date in 1948, it looks as if an even more liberal year-end special might be paid. The earnings of the company assuredly would warrant a substantial measure of generosity in this respect.

Among retailers, Barker Brothers Corporation, an important California distributor of furnishings for homes, hotels and office buildings, is maintaining earnings at a very satisfactory level. Last year's net profits amounted to $5.42 per share and a year-end extra of 50 cents brought total payments to $2.62½. Although first half year earnings for 1948 showed a slight decline the company expressed confidence in its outlook by lifting the dividend rate moderately around mid-year and declaring an extra of 12½ cents. Still total payments for nine months have been only $1.50 per share and as full year earnings may come close to $5 per share, the outlook for a year-end extra is quite bright.

Spain on the Spot

(*Continued from page* 177)

need of structural steel, machinery, tools, rolling stock, and fertilizer. The need is so great that to really help Spain, foreign aid on the scale of Marshall aid would be necessary. But the granting of such a loan is likely too difficult to sell to the new Congress, particularly if the Generalissimo insists on his own terms. Also there is still on the books of the United Nations the declaration made in December 1946, recommending to the member nations the suspension of diplomatic relations with Madrid.

Moreover, Spanish businessmen are known to have admitted privately that a loan to Franco at this point would probably be wasted. The suggestion has been made that the Export-Import Bank lend to individual Spanish industries, or that private loans be given to individual Spanish business concerns. However, such credits would not be large enough to pull Spain out of the present economic morass.

If a loan is to be given and is to be of any use, some of the totalitarian measures which have hog-tied the industries and business would have to be reconsidered. Also, Spain would have to help itself by pushing exports. This could not be done without a drastic reduction of costs—including the cost of Government—or without the devaluation of the peseta. It is doubtful that the Franco regime is ready for such steps.

Varied Prospects for Capital Goods Companies

(*Continued from page* 167)

sector of the machinery industry will in all probability fill some $2 billion worth of orders in 1948. Boom times for oil field equipment makers, from machinery to pipe for ambitious pipe line projects, should be long-lived in view of the oil industry's determination to press forward during the next several years with the largest and most aggressive exploration campaign in their history. Favored by steel priorities, output in this field has been high, thus order backlogs in some instances fail to reflect the scope of current demand. Chief beneficiaries include National Supply, Wayne Pump, Dresser Industries, Worthington Pump and Foster-Wheeler, apart from numerous smaller concerns long active in the field. Foreign business should become increasingly important.

Makers of construction and conveying machinery, too, are doing extremely well with demand still far ahead of supply. The residential building boom, large public construction projects and ECA needs have created extraordinary demands and order backlogs are large, reportedly running from six months to two years and still mounting. Current output is at an annual rate of about $400 million, approximately the same as last year when exports accounted for about one-fourth of the total. ECA requirements latterly have been rising, enhancing future volume potentials.

Principal Beneficiaries

Bucyrus-Erie, Caterpillar Tractor, Le Tourneau, Ingersoll-Rand and Chain Belt are among the companies primarily benefitting from the large business on hand and still ahead. Spectacular uses of construction machinery during the war, showing up their efficiency and resultant cost savings, have contributed to the ever-widening application of this type of equipment in this era of high labor and construction costs. Any future emergence of large scale public works will enhance long range prospects for high level business in this field.

By way of contrast, the textile machinery industry finds itself more or less in the doldrums. Textile industry capacity was greatly increased during the war and the need for new machinery is small in the domestic field. Domestic orders fell off a year ago but foreign orders were high until prior to the advent of ECA when a lull set in pending ECA appropriations. ECA orders may pull the industry out of its slump but this will take some time. In the meantime it is estimated that shipments, currently around a $200 million annual rate, may drop off to half that much. For some time to come foreign markets offer the best prospects but lack of dollars abroad prevents their effective exploitation.

Manfacturers of refrigeration and air-conditioning machinery have large backlogs particularly for heavy equipment while lighter equipment is fairly well caught up. Foreign business is good but could be greatly expanded if it were not for the dollar shortage. York Corporation and Carrier Corporation share importantly in this growing market. In recent months there has been an improvement in incoming orders and allowing for a seasonal decline during the winter months, sales and earnings should hold up well.

Backlogs up to three years are reported in the power plant equipment field, particularly for large steam turbines and generators used by the utility industry now in the process of carrying out a $6 billion expansion program. This should assure a continued high level of activity for makers of heavy electrical equipment, prominently so for such industrial giants as General Electric, Westinghouse Electric and Allis-Chalmers. Foreign demand, too, is impressive, but much of it awaits ECA financing.

The steel shortage is somewhat of a problem but improved supply conditions may be created by record steel output and allocations. Allis-Chalmers, though a leading

maker of farm machinery, reports that a major proportion of its backlog consists now of equipment for the utility industry. The company thus has a stake in two fields where the outlook is particularly impressive, apart from its other activities.

Heavy Order Backlogs

Sales potentials of the agricultural machinery industry are only limited by the availability of steel. Order backlogs are extremely heavy; foreign demand is urgent and rising, and present exceptional domestic demand reflects high farm income, the shortage of farm labor, and generally rising costs that emphasize the advantages of greatest possible mechanization of the farming process.

Ever since the war, this industry has been doing quite well and 1948 shipments should be well above the $1.5 billion figure reported for last year (including tractors). The development of new and improved farming machines, such as cotton and corn pickers, automatic hay balers and automatic controls for attachments, will further enhance the appeal of power equipment as a capital investment. Together with efforts to mechanize the small farm by means of low-price, small-size tractors and equipment, it will widen the industry's potential market considerably.

Sales vs. Profits

Interim reports of leading farm equipment companies have shown a universal increase in sales, but profit margins have been generally narrower reflecting the fact that higher selling prices have not kept pace with the rising trend of costs. Still, company earnings have been highly satisfactory due to exceptional volume. For the current fiscal year ending October 31, the industry is expected to show a sharp gain in sales and moderately larger profits than in the preceding year.

Prospects for 1949 are promising with foreign demand likely to absorb any possible decline in domestic sales due to lower farm income. In an effort to meet demand, the industry has undertaken an extensive expansion program costing an estimated $300 million; there is no question that the expanded capacity will be kept busy for a considerable period ahead. Virtually every company in the field can look forward to above average results.

Dearth of rolling stock has been a much-publicized feature of the postwar railroad picture but the shortage is now on the mend. Production has been stepped up, yet existing backlogs generally foreshadow a high rate of operations for some time to come. While insufficient steel is an obstacle to all-out production, allocations should support volume close to expectations.

Freight car production is expected to remain around the 10,000 cars-a-month goal for the industry set last year but achieved only considerably later; yet shortages of some car types such as gondola cars are still acute. At the end of October, the railroads had on order 111,416 freight cars which at the present rate of delivery would take about a year to build. Of this total, 39,696 are still to be constructed in railroad shops and 71,720 by the carbuilders. Orders placed during October for 11,431 cars exceeded by over 2,400 the number of new cars delivered during that month.

Freight car production for foreign account is tapering off and current backlogs, principally for Latin America, amounts to only about 3,700 units. On the other hand, ECA plans call for delivery to Europe of some 21,000 cars by July 1, 1949, but so far no steel has been allocated or specifications drawn.

Orders for passenger cars exceed 2,200 units and will require more than two years' production at recent operating rates. Orders for Diesel locomotives are close to all-time peaks and at current production rate will take well over a year to complete. In fact, basic demand factors in the entire railroad equipment field remain exceptionally promising, pointing to record sales despite supply problems. While cost factors and competitive forces may limit profit margins, the earnings outlook remains at least satisfactory.

Other Promising Fields

There are other capital goods fields where the outlook supports the expectation of well-sustained or improved business. The building boom, after a seasonal drop during the winter months, is expected to show renewed vigor, aided by the prospect of new housing legislation to be enacted by the next Congress. Shipbuilders which early this year faced the prospect of empty yards, are again active and now have sufficient business for two or more years, with over 1.2 million gross tons of ships on order. Recent large orders, partly reflecting international developments, may be followed by further important business under the defense program.

The aircraft industry is a major beneficiary of the latter, and the scheduled rise in military output will boost industry sales materially over the next few years despite limited prospects for civilian plane orders. Authorizations for the 1949 fiscal year total $1.9 billion compared with $588 million in fiscal 1948. This resurgence of industry activity will have a widely beneficial effect among numerous supplying industries such as aluminum producers, the makers of parts and components, and of instruments.

The effect of new military aircraft orders on profits, however, is not likely to match the scheduled rate of expansion due to profit limitations on cost-plus business to 10% before taxes on production contracts and 15% on experimental and research work. Moreover it is reported that actual fees to the industry are generally held below the legal limit. Contracts, additionally are subject to renegotiation.

Automobiles are not generally classified as capital goods; they fall into the category of consumer durable goods. Yet the strong demand situation in the automotive industry has vital repercussions in various capital goods industries, hence add importantly to the over-all potential of this sector of the economy. It is an influence that should be strongly felt for a considerable period ahead.

Significant Trend in Third Quarter Corporate Reports

(*Continued from page* 169)

the first quarter to 99 cents in the second three months and again rising to $1.06 in the September quarter. The company reports a satisfactory backlog and an inventory reduction of 18% in the course of 12 months, along with a rise of $1 million in working capital. By the recent $30 million financing of a new installment company subsidiary, Fruehauf's working capital position will be further improved and outstanding bank loans entirely liquidated.

Larger unit sales of automobiles and trucks, combined with price advances to offset rising costs, served to push net sales of General Motors Corporation above $1.2 billion in the third quarter. Net earnings of $2.67 per share for the three months revealed a consistent gain during each quarter of the year thus far. Net income in relation to sales, though slightly lower than in prewar when the ratio averaged 11½% in the 1936-41 period, was about 10%, a quite satisfactory percentage. Volume for nine months rose to more than $3.4 billion and net income to $327.1 million, or $7.22 per share, indicating that net income margins have tended to improve in the September quarter; use of some materials bought at lower prices helped to expand earnings slightly. A non-recurring profit of $8.3 million, derived from sale of certain minority interests in other concerns also swelled the earnings total. GM's larger output has been due to inceased efficiency and in no small part to availability of newly constructed facilities. Shortage of sheet steel, though, still holds production well short of capacity.

Strong Working Capital Position

The September 30 balance sheet shows that working capital finally has crossed the billion dollar mark, with current assets including approximately $286 million cash and $535 million Government securities, part of which were purchased to allow for accrued taxes of $323.6 million. It will be seen that the Government and foreign tax agencies share about equally with stockholders of General Motors in the company's record prosperity, although the latter must leave a substantial portion for reinvestment in the business while the tax authorities will get full cash for their share in due course. Declaration of a $2 year-end dividend, bringing total payments for the year to $4.50 per share, indicates that General Motors will probably retain the equivalent of about $5 per share in the rapidly expanding business, that is if earnings for the final quarter equal the average for the three preceding quarters.

The September 30 report of United States Steel Corporation is of special interest in more than one way. Volume of $1.75 billion for nine months compared with $1.52 billion for the like period in 1947, establishing a gain of 15%. Net earnings in the same priod, though, dipped to $7.94 per share as against $9.01 in 1947. In other words, net income relative to sales declined to 5% compared to 6.4% a year earlier.

In explanation of this discrepancy, the steadily rising costs of Big Steel's huge expansion program involving around $900 million, about half of which has already been spent, have brought the company face to face with totally inadequate amounts allowed by the Bureau of Internal Revenue for depreciation of all its vast properties. Current replacement costs of obsolete facilities are far higher than the original costs, yet tax credits for depreciation are based only on the latter. In view of this situation, U. S. Steel in 1947 and through the first two quarters of 1948 set up a special reserve equal to 30% of allowable depreciation, reducing per share earnings accordingly. At the end of September the management felt this cushion was still insufficient to meet the problem and raised the percentage to 60%, retroactive for all of 1948. Hence in contrast to this special reserve of $19.6 million in 1947 for nine months, the amount was raised to $39.7 million for the same 1948 period.

How substantially this distorted net earnings is shown by the fact that without this deduction net earnings would have equalled $12.50 per share rather than $7.94. Basically the step makes little difference to shareholders, except as a warning against over-optimism as to increased dividend liberality, yet the "Street" was considerably disappointed when no year-end extra was declared. Since U. S. Steel spent about $199 million for additions and replacements in the first nine months of 1948, conservative dividend policies were undoubtedly wise.

E. I. du Pont de Nemours & Company also has taken steps to establish sizable reserves against excessive construction costs although they are fully taxable and reduce net earnings. Last year this company set aside $15.2 million for the special purpose and during 9 months of 1948 added $14.9 million more. September quarter sales of du Pont climbed to $251.6 million for a gain of about 30% over the same period last year. The rise for nine months was slightly less or 24%. Per share earnings in the third quarter appear as $3.24 compared with $2.14 last year, and for nine months were $8.36 vs. $7.27.

Operating margins of this concern have widened only slightly on larger sales during nine months, amounting to 25.6% in the current year compared with 25.3% in the period a year ago. "Other income," though, from General Motors dividends received in the first nine months, rose $2.5 million for a total of $25 million compared with ordinary net operating income of $90.2 million. Final quarter income from the GM investment will be lifted sharply by the $2 per share year-end extra recently declared by the automotive concern, bringing the total for the year from this source to $45 million. On the other hand miscellaneous income received by du Pont in the nine months' period declined by $2.2 million.

A good illustration of how rapidly earnings can decline when volume becomes even slightly lower is shown by the experience of Mack Trucks. Diminishing demand for heavy trucks in recent months reduced the sales of this concern to $26.8 million in the third quarter compared to $32.1 million in the same period of 1947. Net earnings fell steeply to 40 cents per share from the corresponding level of $1.54 a year earlier. Even more significant is the fact that though nine months sales declined only about $1 million, sliding to $89.5 million compared with $90.6 million, per share earnings for the period dropped to $2.04 per share as against $3.53 last year.

Reduced earnings in the September period apparently are chiefly to blame for this, although a less abrupt downtrend during the entire year was partially accountable. These adverse results must not be construed as clouding the medium term outlook for Mack Trucks, for the demand for light trucks exceeds capacity and that for the heavier ones seems to be merely levelling off for the time being. Confidence of the management in favorable prospects is shown by plans to spend some $5 million for further expansion in the immediate future. Chances are that a high break-even point can be adjusted downward, given a little time, if volume trends are not soon reversed.

Some of the stronger radio manufacturers are making surprising gains in sales and earnings, despite talk that the industry as a whole has reached a point of over-supply in relation to demand. The report of Philco Corporation provides a good example of consistent progress. Volume of Philco for the first nine months of 1948 set a new high record of $194 million, an increase of 23% over the related 1947 showing. The company reported net earnings of $3.90 per share for nine months last year on 1.37 million shares outstanding, after allowing $2.09 million for inventory and research reserves. During the same period this year, after deducting $2.68 million for special reserves, net earnings equalled $4.23 per share on approximately 1.5 million shares. In 1947, non-recurring income of nearly $800,000 lifted final net, but no such factor helped to expand earnings in the current year.

Net Income of Leading Corporations for the First Nine Months

(In Thousands of Dollars)

		Net Income by Quarters					Net Income Nine Months		% Annual Return Nine Months	
No. of Cos.	Industrial Groups	3 Qr. 1947	4 Qr. 1947	1 Qr. 1948	2 Qr. 1948	3 Qr. 1948	1947	1948	1947	1948
24	Food products	$ 36,254	$ 41,030	$ 35,619	$ 35,838	$ 35,543	$115,968	$107,000	20.1	16.8
27	Textiles and apparel	22,159	26,360	26,547	27,038	24,185	65,917	77,770	21.7	22.5
16	Pulp and paper products	19,872	19,982	22,293	22,115	20,946	62,261	65,354	26.9	23.0
38	Chemicals, drugs, etc.	86,704	96,566	102,043	103,486	115,184	277,202	320,713	17.0	16.9
16	Petroleum products	152,190	202,975	227,637	246,339	244,478	410,825	718,454	14.1	21.3
15	Cement, glass, and stone	16,806	18,758	18,582	24,463	26,498	51,821	69,543	18.3	20.8
30	Iron and steel	86,371	95,641	108,865	104,283	133,561	289,539	346,709	11.1	12.6
14	Electrical equip. and radio	42,880	71,508	50,965	53,556	49,697	129,871	154,218	18.4	19.5
28	Machinery	12,383	15,744	14,407	11,273	17,162	38,813	42,842	16.0	16.2
8	Office equipment	14,664	20,623	15,658	20,085	18,094	46,671	53,837	25.3	25.4
12	Autos and trucks	82,570	86,783	107,947	119,256	129,367	238,236	356,570	19.3	26.1
20	Automobile parts	14,782	15,140	17,516	15,413	19,058	46,329	51,987	20.5	20.1
64	Other metal products	46,088	42,713	47,039	47,841	54,524	131,135	149,404	16.9	17.4
31	Miscellaneous mfg.	27,333	39,776	28,243	31,170	35,870	88,634	95,283	17.7	17.0
343	Total manufacturing	661,056	793,599	823,361	862,156	924,167	1,993,222	2,609,684	16.1	18.7
26	Mining and quarrying	31,978*	38,844*	38,508*	42,514*	43,772*	86,988*	124,794*	17.0	21.7
17	Trade (retail and whole.)	11,008	14,682	9,005	10,833	12,092	28,887	31,930	13.5	13.7
14	Service industries	4,603	5,252	2,995	5,773	4,895	12,749	13,663	11.2	11.7
400	Total	$708,645	$852,337	$873,869	$921,276	$984,926	$2,121,846	$2,780,071	16.0	18.7

*—Before depletion charges in some cases.
Source: National City Bank of New York.

As I See It!

(*Continued from page* 161)

wait, for in the next few weeks we will know which way the wind blows on all important issues. If the Taft-Hartley law is revised so as to give a square deal to both labor and management, we can rest assured that a middle-of-the-road policy will be followed by President Truman. Also, if Truman's tax legislation demands take into consideration the great need for capital formation to meet requirements for economic expansion, and assure adequate business profits, then the fears of business and industry will be allayed. If price controls, should they be deemed necessary, are operated in a practical and equitable manner, we can expect that the President will receive the support and cooperation of all those interested in the maintenance of a healthy and prosperous economy.

Moreover, if Mr. Truman recognizes that the mandate he received was for a middle-of-the-road course — neither too far to the left nor too far to the right — then he will be showing acumen of the first order in the conduct of our domestic affairs.

If in the foreign field he sticks to his guns in Berlin and refuses to accept Trygve Lie's suggestion for a four-power conference which could only mean another diplomatic victory for Russia, we may see a bettering of the situation in that part of the world. And if he ignores the ill-conceived English-inspired Bernadotte proposals, and carries out the original UN provision giving the Negeb to the Israeli government, he can not only bring about a settlement between the Arabs and the Jews in the Middle East, but spike Russian intrigue in this strategic area to gain control of a weakened Israeli state.

In short, if Mr. Truman carries out both our foreign and domestic program in a judicious manner and without partisanship, 1949 can and will be a year of progress, premature and emotional appraisals of the outlook notwithstanding. Such sound psychology and sincere effort should spell progress at home — and abroad it would help the world achieve peace and the opportunity for recovery and rehabilitation, a task that shoud bring work and prosperity to all for several generations to come.

Selected Stocks at Bargain Levels

(*Continued from page* 164)

had been a question whether the increase in Federal spending, especially for arms and the military bolstering of Western Europe, would be great enough to make effective inflation controls mandatory. There is still that question.

There will be fourth-round wage increases, but they were already on the cards. They would have been considerably more moderate in percentage than the previous annual increases had Dewey won. They will still be so, for compelling economic reasons. Consumers will continue to spend their record income as freely as before, although this means less for some things, more for others as supply-demand factors shift. The inventory policy of business men has been, on the whole, tied pretty closely to sales. That will continue to be so. Exports have been on a high plateau, under the 1947 peak. This will continue, with the 1949 total not much changed from 1948. Where supply has caught up with demand, or nearly so, prices will either ease or hold barely steady for a while longer. That is so of many lines of soft goods. It is so of farm items, which can sag further, on an average, under the present 90%-of-parity support program; and there is no prospect that Mr. Truman will propose to revise this upward. In tight situations, such as steel and automobiles, prices could rise further, in reflection of fourth-round wage increases, unless price-controls are imposed. A boost in key durable goods industries could well give the Administration and Congress all the case they need for some price controls; and this will bear watching.

The election of Mr. Truman is not automatically inflationary, a fact to which the current action of the commodity markets will attest. Bear in mind that the President leans strongly toward, and will no doubt try hard for, a balanced budget. We will not be at all surprised if he asks higher taxes as an offset to increased spending, thus nullifying or limiting its inflationary effect. The taxes probably will center on corporations, possibly on higher-bracket income taxpayers also. It is too early to have much conviction what Congress will do with his tax recommendations.

We cannot predict what the impact of higher taxes would be on earnings, although we think it would be fairly moderate. Average earnings now exceed dividends by more than two and a half times. Hence, it is quite improbable that general dividend-coverage will be impaired. That being so, and with dividends of many good-grade stocks now yielding from 5% to 7%—even more in some cases—there should be ample investment support underlying the market. If you share our view, you may wish to do some buying on nearby periods of weakness — not on rallies. We would not oppose it, up to 75% invested positions. We rather doubt that you will do much better by waiting. On the other hand, we cannot say that any need for hurry is indicated.

—Monday, November 15.

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